# Service to the Public

## *Housing*

A Study Team Report
to the Task Force on Program Review

# HOUSING PROGRAMS

# IN SEARCH OF BALANCE

A Study Team Report
to the Task Force
on Program Review

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## FOREWORD

The Task Force on Program Review was created in September 1984 with two major objectives - better service to the public and improved management of government programs. Recognizing the desirability of involving the private sector in the work of program review, assistance from national labour, business and professional organizations was sought. The response was immediate and generous. Each of these national organizations selected one of their members to serve in an advisory capacity. These public spirited citizens served without remuneration. Thus was formed the Private Sector Advisory Committee which has been responsible for reviewing and examining all of the work of program review.

The specific program reviews have been carried out by mixed study teams composed of a balance of private sector and public sector specialists, including representatives from provincial and municipal governments. Each study team was responsible for the review of a "family" of programs and it is the reports of these study teams that are published in this series. These study team reports represent consensus, including that of the Private Sector Advisory Committee, but not necessarily unanimity among study team members, or members of the Private Sector Advisory Committee, in all respects.

The review is unique in Canadian history. Never before has there been such broad representation from outside government in such a wide-ranging examination of government programs. The release of the work of the mixed study teams is a public acknowledgement of their extraordinarily valuable contribution to this difficult task.

Study teams reviewed existing evaluations and other available analyses and consulted with many hundreds of people and organizations. The teams split into smaller groups and consulted with interested persons in the private sector. There were also discussions with program recipients, provincial and municipal governments at all levels, from officials to cabinet ministers. Twenty provincial officials including three deputy ministers were members of various study teams.

## TERMS OF REFERENCE FOR A MIXED STUDY TEAM ON HOUSING PROGRAMS

### TERMS OF REFERENCE

There are 24 programs listed in Annex A directed in whole or in part to housing. Other housing-related programs have been evaluated by the study teams on services and subsidies to business and native programs. These 24 programs are estimated to cost $2.0 billion in 1984/85, and involve four departments and agencies. In addition, tax expenditures amount to an estimated $4.1 billion.

The study team will examine the appended list with a view to making any necessary additions or deletions. It will structure its examination by type of program, as follows:

a. programs designed to provide adequate housing for low-income groups;
b. programs designed to promote the effective operation of the mortgage and housing markets;
c. programs designed to maintain and improve housing standards;
d. programs designed to promote energy conservation in the residential sector;
e. programs through which the government uses the housing sector as an economic lever.

Based on an appropriately modified list of programs, the Task Force on Program Review seeks advice and conclusions regarding a profile of government programs which is simpler, more understandable and more accessible to its clientele, and where decision-making is decentralized as far as possible to those in direct contact with client groups. Included in this advice could be observations regarding:

- Areas of duplication between the federal and provincial governments.
- Programs that might be eliminated.
- Programs that could be reduced in scope.
- Groups of programs that could be consolidated.

- Programs whose basic objective is sound but whose form should be changed.
- A summary overview of the legislation that would be required to implement any of these program changes.
- The resource implications of any recommended program changes, including increased costs or savings and the number and location of either increases or decreases in staff.

By means of background information to its conclusions, the study team is requested to obtain answers to three sets of questions and concerns regarding beneficiaries; efficiency and overlap; and gaps and omissions.

Beneficiaries

- The principal beneficiaries of housing programs.
- The geographical distribution of expenditures in relation to demographic realities and need.
- The appropriateness of the targeting, and differences in targeting resulting from the application of programs by provincial and municipal governments.
- Beneficiaries of federal programs who are also beneficiaries of provincial programs.

Efficiency and Overlap

- Programs which are particularly troublesome to beneficiaries in terms of red tape, paper work and delays.
- Illustrative cases where individuals or groups have benefitted from several programs, including tax expenditures and programs of provincial and municipal governments, (including rent control) and:
  - the programs are complementary,
  - the programs seem to work at cross-purposes,
  - the programs involve substantial duplication or overlap.

- Cases where programs could be delivered more efficiently at the provincial or municipal levels.
- Cases where programs could be delivered more efficiently by private sector organizations.
- Past federal intervention in promoting the effective operation of the mortgage and housing markets, and the effectiveness of such interventions.
- Areas where the federal government has played a role in assuring that minimum housing standards apply across the country.
- The manner in which the federal government has used the programs as economic levers, the impact of such use on the housing market and the potential for such use in the future:
- The cost-effectiveness of energy conservation programs listed in Annex A, and their impact on housing costs and standards.
- The degree to which federal housing expenditures stem from past commitments and are thus locked in.
- Number and location of CMHC offices across the country.

Gaps and Omissions

- Direct spending or tax expenditure programs which should be taken into account in this review but are not in the list of programs in Annex A.

## LINKAGE WITH CONSULTATION PAPERS

A consultation paper on housing has been released by the Minister responsible for CMHC and is serving to stimulate discussion and consultation between the private sector and responsible Ministers on possible future policy options. The study team has examined this paper and will follow the consultation process closely. However, the team's central task will be to advise the Ministerial Task Force along the lines set out in paragraphs above.

## COMPOSITION OF STUDY TEAM

The study team will be led by a senior private sector executive. The team director will report to both the Public Sector Advisor and the Private Sector Liaison Advisor serving the Chairman of the Task Force. The director will be supported by two seconded government officers and a matching number of private sector representatives nominated through the Private Sector Advisory Committee. The team, or its director, will meet with the Public Sector and Private Sector Liaison Advisor at their request.

## WORK PROGRAM

It will be desirable to assign specific tasks to sub-teams dealing with specific subjects. To this end, the study team will submit for consideration by the Ministerial Task Force a detailed work plan showing the sub-teams and the major activities.

The study team will have access to any evaluations and evaluative tools departments have with respect to programs covered by this review.

## REPORTING SCHEDULE

The study team is requested to report its findings to the Ministerial Task Force by July 8, 1985. In addition, the Task Force will receive brief progress reports on the work of this and other study teams at all regular meetings.

## COMMUNICATION WITH DEPARTMENTS

Ministers of those departments directly affected by this review will be advised which programs under their jurisdiction will be included.

## LIST OF HOUSING PROGRAMS

| | | |
|---|---|---|
| CCA | 7 | ASSISTANCE PROGRAM FOR UREA FORMALDEHYDE FOAM INSULATION (UFFI) HOMEOWNERS |
| CMHC | 6 | MORTGAGE LOAN INSURANCE |
| CMHC | 7 | REHABILITATION & CONSERVATION |
| CMHC | 100 | RESEARCH, DEVELOPMENT, DEMONSTRATION AND INFORMATION |
| CMHC | 101 | SOCIAL HOUSING |
| CMHC | 102 | MARKET HOUSING |
| CMHC | 103 | COMMUNITY SERVICES |
| DND | 9 | MILITARY ACCOMMODATION FOR CIVILIANS |
| EMR | 33 | SUPER ENERGY EFFICIENT HOME PROGRAM |
| EMR | 34 | NORTHERN RESIDENTIAL STANDARDS |
| EMR | 35 | CANADIAN HOME INSULATION PROGRAM (CHIP) |
| EMR | 37 | CANADA OIL SUBSTITUTION PROGRAM (COSP) |
| EMR | 40 | REMOTE COMMUNITY DEMONSTRATION PROGRAM (RCDP) |
| EMR | 51 | SOLAR ENERGY DEMO PROGRAM |
| FIN-TEC | 15 | CARRYING CHARGES ON LAND |
| FIN-TEC | 99 | TAX SHELTERS FOR HOUSING INVESTMENT |
| FIN-TEP | 1 | EXEMPTION FOR CHIP GRANTS IN P.E.I AND N.S. |
| FIN-TEP | 4 | EMPLOYEE HOUSING AND OTHER LOANS |
| FIN-TEP | 20 | CAPITAL GAINS ON HOMES |
| FIN-TEP | 21 | REGISTERED HOME OWNERSHIP SAVINGS PLAN (RHOSP) |
| FIN-TES | 2 | ENERGY CONSERVATION EQUIPMENT, INSULATION |
| FIN-TES | 9 | HOME HEATING FUELS AND ELECTRICITY |
| INAC | 113 | CANADA NORTHWEST TERRITORIES HOME HEATING OIL SUBSIDY AGREEMENT |
| INAC | 114 | CANADA YUKON TERRITORY HOME HEATING OIL SUBSIDY AGREEMENT |

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# I. OVERVIEW

Achieving a balance in an area as diversified and multi-faceted as housing is a difficult task. Yet in many ways this is the challenge for housing policy in the 1980s: To reassess the balance between social and housing market objectives, between programs to build new housing and those which use the existing stock, between the respective roles of the federal and provincial governments and among research priorities for housing.

Housing programs have benefited Canadians at all income levels. Stimulative programs, designed as tools to generate employment and reactivate housing markets, mortgage insurance to facilitate access to home ownership and rental production and various tax measures have provided general housing support. Even social housing programs have served moderate and middle-income households. It is time to redress this imbalance, to favour those with the greatest need for assistance.

Housing programs have also focused heavily on the supply of new units rather than the use of the existing housing stock. While there is a definite need in many market areas for new rental production, the major problem facing low-income households is the inability to afford their existing accommodation. Supplying new social housing units is a costly form of assistance and results in long-term subsidy commitments with little flexibility for new initiatives. A shift in the balance towards rental supplements and renovation programs would create a more cost-effective social housing strategy.

While housing is traditionally a shared federal and provincial responsibility, in recent years several provinces have significantly reduced their financial contributions and the priority they assign to social housing. Furthermore, federal expenditures have been used to correct distortions in rental markets, which are due in part to provincial rent controls. A rebalancing of federal and provincial cost-sharing responsibilities is needed. At the same time, there are opportunities for cooperation in meeting needs, to

ensure equitable access to housing programs throughout the country while allowing for flexibility and responsiveness to local conditions.

Finally, in the area of housing quality, there has been an array of initiatives in several federal agencies. In the past decade, residential energy conservation has been a priority. There is a need to balance pursuit of this national objective with the requirement for structural soundness and safety in homes. A consolidation of residential research and development would allow for more effective and comprehensive solutions to technical housing problems.

## STRUCTURE OF THE REPORT

This report is presented to the Ministerial Task Force on Program Review as the embodiment of the work of the study team on Housing Programs.

## OBJECTIVES FOR FEDERAL HOUSING POLICY

The study team recommends to the Task Force Ministers that they consider the following policy objectives:

a. In social housing, to enable those most in need to obtain adequate, affordable accommodation and to direct programs specifically to those unable to compete in the market;
b. For housing markets, to assist in stabilizing and abetting the housing and mortgage markets, in order to permit them to work with a minimum of intervention; and
c. In housing quality, to promote the establishment and maintenance of national housing standards and to advance the state of housing technology through research, development and application.

If these objectives are accepted, consistent implementation strategies should be adopted to achieve them. For example, in Social Housing, with the limited amount of federal resources available for housing, programs should only address the most pressing needs and not be

designed to benefit the general populace. In Housing Markets, if the intent is to enable the housing and mortgage markets to function properly, periodic market stimulation incentives and extensive supply-side initiatives are generally unwelcome. In Housing Quality - encompassing housing standards, research and technology transfer - the mandate for a federal leadership role is unclear and the present need is to precisely define roles and allocate resources to agencies and departments best suited for the tasks.

## HIGHLIGHTS OF OPTIONS

### General

The study team has stated that it views the present mix of programs, as they are administered, as incapable of meeting the re-stated policy objectives. It proposes a new national policy which would include some restructuring of the best of existing programs, some consolidation of programs and some new initiatives.

### Social Housing

In the United States, the President's Commission on Housing concluded that it is no longer appropriate to use a 1960 solution (supply) to solve a 1980 problem (affordability). The study team supports that notion. Housing affordability is the major problem facing low-income households today and the study team has regarded the need to address this with appropriate solutions as a significant part of its responsibility. The strengths and weaknesses of current programs are specifically discussed in the Thematic Essay on Social Housing, but it might be helpful to identify the main aims of the revised social housing strategy which is proposed:

a. To develop programs which correspond to social housing needs;
b. To target social housing programs to those most in need; and
c. To redress the imbalance in federal/provincial cost-sharing of social housing programs.

The study team has identified for the Task Force the makeup of the over one million Canadians in most serious need of social housing assistance, commonly referred to as

the "core housing need". If the objective is redefined as directing funding to those most in need, the current principal vehicle for providing social housing assistance, the Non-Profit and Cooperative Housing Program (National Housing Act, Section 56.1), should be eliminated and replaced with a more cost-effective alternative.

As a replacement for Non-Profit and Cooperative Housing, the study team recommends to the Task Force on Program Review that the government consider a new plan for social housing which would contain the following three key program elements:

a. The increased use of rent supplement;
b. A Residential Rehabilitation Assistance Program that is universally available to those most in need; and
c. A new initiative, called the Community Housing Program, to provide fully-targeted assistance in small-scale housing projects.

Cooperative and non-profit housing groups could continue to play a role in program delivery in the plan. The refinement of the program elements of the plan, along with the federal/provincial cost-sharing implications, are contained in the section on social housing.

**Housing Markets**

If a single theme could be identified for the federal government role in housing and mortgage markets, it would be one of encouraging a climate of stability in which the private sector can function most effectively. Clearly, the days of massive stimulative intervention programs are behind us, and a posture of less intrusive support to enable the markets to work well themselves is the better course to pursue. The study team favours a continued role for the government in ensuring universal geographic access to mortgage financing for housing through the Mortgage Loan Insurance Program, albeit with a number of recommended design reforms to move the program to an improved financial basis.

The serious problems in rental housing markets in a number of urban centres have been considered by the study team. No one magic solution has been found, although some tax changes that are proposed for further investigation could be of benefit. The issue of the disruptive and de-stabilizing

effects of rent controls on the rental housing market has been addressed in the introduction to the section on housing markets, and several potential federal government responses are presented.

**Housing Quality**

Along with a much more precise definition of the federal leadership role in housing quality initiatives, the study team proposes to the Task Force that the government consider, among its major options:

a. a comprehensive systems approach to housing technology development and the elimination of duplication, by consolidating and relocating a number of current programs in this highly fragmented field;
b. support of the CMHC proposal to create a National Housing Research Committee to coordinate federal, provincial and industry involvement in housing research;
c. a single national materials evaluation service; and
d. an expanded CMHC inspection service to permit a better assessment of the prospect for future privatization.

**THE ORGANIZATION OF CMHC**

Canada Mortgage and Housing Corporation (CMHC), the federal government's housing agency, is a Crown corporation currently reporting to Parliament through the Honourable Bill McKnight, Minister of Labour. CMHC's mission as contained in the National Housing Act is "to promote the construction of new houses, the repair and modernization of existing housing and the improvement of housing and living conditions". It carries out this responsibility with a staff of 3,700 employees located at a National Office in Ottawa and in 70 regional and branch offices throughout Canada.

In the course of its work, the study team has had the opportunity to observe the Corporation as a national organization and has been asked to render comments on its structure. The study team has received opinions, both from within government and from the housing industry, that CMHC might function better, be more influential and possibly be more accessible as part of an appropriate government department. On the other hand, there are some of CMHC's

functions that do not seem readily compatible with a departmental structure. The study team offers in this report a separate paper on this discussion, with several options for change.

## CONCLUSION

In sum, the study team proposes to the Task Force on Program Review that the government consider new directions for housing policy and programs which would respond to the need for a better balance in the federal housing strategy - a revised plan for Social Housing to meet the most pressing need, the encouragement of stability in housing markets, and a stronger federal role in research and housing quality. Taken together, they should form the direction for the federal government in housing.

## 2. THE STATUS OF CMHC AS A CROWN CORPORATION

There are three features of Crown corporations which are pertinent to a consideration of CMHC's status. First, Crown corporations are intended to operate at arm's length from government, from which they receive only broad policy direction. This appears to be neither the existing nor necessarily the desirable situation of CMHC.

Second, a minister with responsibility for a Crown corporation is generally also responsible for a department with related interests which can advise him on policy issues. This is not the case for CMHC, as policy proposals are generated and implemented by the corporation itself.

Finally, Crown corporations, with few controls on spending, do not normally administer large budgetary programs. CMHC, however, does have a comparatively large amount of budgetary funds for the delivery of government programs, but far fewer controls on that spending than apply to a department.

Given the above, it might be useful for the Task Force on Program Review to examine the four major functions of CMHC in order to see whether they might be appropriately placed within departmental structure.

a. The housing subsidy programs: these are most similar to other government programs, and with minor changes could be easily transferred to a departmental structure. The required modifications would include changing the forgivable portion of Residential Rehabilitation Assistance loans to recoverable contributions and using private sector lending for the rest, assisting Social Housing only through the provision of subsidies to either the provinces or other groups who would retain title to the properties, and similar types of changes.

b. The research and technical services programs: most of these - internal and external research, program evaluation, policy development - also fit easily within a departmental structure. Only the more technical services, such as inspections and building materials evaluations, may not be as easily accommodated. Building materials evaluation may more properly belong at the National Research Council or even as a non-

governmental organization, while the inspection service is considered along with Mortgage Loan Insurance (discussed below).

c. Direct lending: CMHC provides direct lending on a residual basis where it is not available from other sources. Lending is a function that is not usually done by departments because it is intended to be carried out on a commercial basis, to which the Crown corporation structure may be more suited. Nevertheless, it could be done by a department, provided legislation granted the statutory authority. Since the government contracting regulations do not cover lending agreements, the degree of regulation over this lending activity that might be desired could be outlined in the legislation. If this function were done by a department, the loans would become part of the Government of Canada accounting entity, and would be subject to Treasury Board rules of financial management.

d. Mortgage Loan Insurance: CMHC, through the Mortgage Insurance Fund (MIF), provides protection to lenders against loss on mortgage default. There are few examples, of such a function being handled by a department, except perhaps the Unemployment Insurance Fund. In order to maintain the MIF within a department, legislation would have to authorize the creation of a separate account with the Consolidated Revenue Fund. It would be difficult, but not impossible, to maintain the goal of self-sufficiency as certain services, such as accommodation and translation, are provided without cost to departments and would therefore not be reflected in mortgage insurance premiums. As a result, the degree to which the private sector could compete might be impaired. The inspection service at CMHC serves a support function to the MIF. It would either have to be changed in the same way as the MIF, or be privatized and provide service to the MIF on a contract basis.

The above considerations lead to a variety of possible options if a change to the present situation were desired. They are as follows:

a. Transfer all CMHC functions to a departmental structure: the lending and MIF operations would be the most difficult to accommodate in this way, but this option would retain all housing functions together. It should be noted that creating a department of housing as a direct part of the federal government might highlight for the provinces federal intrusion into an area that might be considered provincial jurisdiction. As well, consideration should be given to the potential impact on the federal deficit of the substantial actuarial deficit of the MIF.

b. Transfer the subsidy and research functions to a departmental structure; maintain a separate Crown corporation as a financial intermediary: both the MIF and direct lending would be operated on a strictly commercial basis, with explicit cost-recovery agreements with government for non-commercial activities. This is probably the most straight forward split of functions, although as discussed above, some minor changes would be required to the subsidy programs, and there is potential for provincial concern over jurisdictional issues. This option may create problems of coordination between the two bodies, and would likely lead to duplication in administrative and field office structures.

c. Transfer the policy and research functions and financial responsibility for subsidy programs to a departmental structure; maintain a separate Crown corporation as a financial intermediary and to deliver subsidy programs under contract: this option would place full responsibility for policy development and program design within a small ministry or department, but the programs would be delivered through the existing network of corporate offices and staff. Although this would theoretically place the budgetary spending under closer governmental control, this control might be difficult to achieve given the size and nature of the programs and existing structures. It is also possible that the agency delivering the programs would feel the need to develop its own policy expertise.

d. Privatize the MIF or maintain a separate Crown corporation for MIF and direct lending; maintain only a small secretariat for the subsidy programs: this secretariat would provide advice to the Minister and negotiate with the provinces for delivery of all the subsidy programs. Technical research would be done at the National Research Council. This would reduce administrative overlap between federal and provincial governments and would most respect jurisdictional distinctions. However, it would remove the need for a network of offices, which would make it more difficult for government if it wished to put in place and deliver federal programs, particularly immediate stimulative programs like homeowner grants. This option is not recommended because it is consistent with major substantive recommendations of the study team relating to the future treatment of the MIF, provincial delivery of subsidy programs and consolidation of technical housing research.

A final issue if one were to transfer to a departmental structure any or all functions of CMHC, is whether to add the functions to an existing department, have them in a newly-created departmental corporation (Schedule B of the Financial Administration Act) or in a newly-created department (Schedule A). Since there does not appear to be an existing department which would be a logical candidate for these activities, the first option is not considered further.

Departmental corporations are defined as performing administrative, research, supervisory, advisory or regulatory functions of a governmental nature. They are subject to the policies and financial regulations of government but maintain a separate employer status and corporate structure. Departments are different from departmental corporations in that they are not separate employers and do not have a corporate structure. If any part of CMHC were to be changed to a departmental structure, it may be advantageous to retain separate-employer status, simply to help reduce staff resistance to such a change. On the other hand, retention of a corporate structure with a Board of Directors may interfere with the kind of direct input and contol that such a change would be seeking to achieve.

On balance, the preferred option recommended to the Task Force for consideration by the government is to further investigate the transfer of all CMHC functions to a departmental structure (either Schedule A or B), provided that the MIF and direct lending activities could be accommodated.

# 3. SOCIAL HOUSING

## INTRODUCTION

The Social Housing programs of Canada Mortgage and Housing Corporation (CMHC) represent the largest single category of federal expenditure in the housing domain. Expenditures for 1986/87 are forecast to be $1.3 billion, 95% of which results from activity in previous years. This means that even if all new social housing activity were terminated January 1, 1986, budgetary expenditures in 1986/87 would still be a forecasted $1.25 billion. This proportion of locked-in expenditure would not remain constant over time; it would decline, for example, in 1987/88 to 91% and in 1988/89 to 85% with a 1986 termination of activity.

Despite this sizeable expenditure, there remains a high level of outstanding need for social housing assistance. The major challenge is to devise a strategy to more effectively meet these outstanding needs. As well, efforts are required to reduce, where possible, the magnitude of on-going expenditures.

## THE NEED FOR SOCIAL HOUSING

The fundamental rationale for a government role in the provision of social housing lies in a recognition that, even when housing markets function well, there are some Canadians whose needs cannot be met by the private market. To a large extent, this is because their incomes are too low to enable them to afford private market accommodation. In other cases, there are constraints in the extent to which the private market provides housing which is appropriate or accessible to the special needs of some households.

To measure the need for social housing assistance, CMHC has derived an indicator known as "core housing need". This indicator identifies those households who would be unable to afford a suitable and adequate housing unit in their locality without paying more than 30% of their household income. It comprises the following categories of need:

a. households currently paying more than 30% of their income for shelter and living in adequate dwellings, and who could not attain adequate

accommodation at a lower proportion of their income (an affordability problem);

b. households living in inadequate dwellings and paying more than 30% of their income for shelter, and who are unable to improve their housing condition in a way which is affordable (an affordability and adequacy problem); and

c. households living in inadequate dwellings and paying less than 30% of their income for shelter, but who could not afford the cost of an adequate dwelling (an adequacy problem).

The measure excludes households who choose to spend more than 30% of their income for shelter but who could obtain an adequate dwelling in their locality paying less than 30%.

The choice of a 30% shelter-to-income ratio is somewhat arbitrary, as there is no definitive authority on how much various households can afford to pay or should pay for housing. Yet, even using this measure, which some would regard as overly stringent, there are more than one million households in Canada in core housing need. The breakdown by categories of need is shown in Table 1.

**Table 1. Distribution of Core Housing Need**

| | Affordability | Adequacy and Affordability | Adequacy |
|---|---|---|---|
| **Urban** | | | |
| Renters | 413,940 | 79,830 | 36,360 |
| Owners | 271,020 | 62,660 | 9,630 |
| **Rural** | | | |
| Renters | 14,960 | 4,330 | 8,680 |
| Owners | 70,740 | 34,440 | 15,080 |

**Source:** Statistics Canada, "Households' Income, Facilities and Equipment" (HIFE), 1982 Micro Data File, Family Expenditure Survey and Projections by CMHC.

On average, these households have an average income in 1984 dollars of about $10,000 per year. Approximately 40% of them are senior citizens, 25% are non-elderly single individuals, 14% are families with children and 12% are single-parent families, mainly female led. Of all households excluding senior citizens, 60% are in the labour force and so are not supported by income transfer programs. The distribution of core housing need by province is shown in Table 2.

**Table 2. Households in Core Housing Need, By Tenure and Province ***

| Province | Owners | % | Renters | % | All Households | % |
|---|---|---|---|---|---|---|
| Nfld. | 16,000 | (3.4) | 5,000 | (0.9) | 21,000 | (2.1) |
| P.E.I. | 3,000 | (0.6) | 2,000 | (0.4) | 5,000 | (0.5) |
| N.S. | 26,000 | (5.5) | 14,000 | (2.5) | 40,000 | (3.9) |
| N.B. | 22,000 | (4.7) | 13,000 | (2.3) | 35,000 | (3.4) |
| Quebec | 58,000 | (12.5) | 167,000 | (29.9) | 225,000 | (22.0) |
| Ontario | 150,000 | (32.5) | 177,000 | (31.7) | 327,000 | (32.0) |
| Manitoba | 35,000 | (7.5) | 28,000 | (5.0) | 63,000 | (6.2) |
| Sask. | 29,000 | (6.3) | 24,000 | (4.3) | 53,000 | (5.2) |
| Alberta | 44,000 | (9.5) | 42,000 | (7.5) | 86,000 | (8.4) |
| B.C. | 81,000 | (17.5) | 86,000 | (15.4) | 167,000 | (16.3) |
| Canada | 464,000 | (100.0) | 558,000 | (100.0) | 1,022,000 | (100.0) |

**Source:** As in Table 1.
* Estimates rounded to the nearest thousand.

These core need households are not the only Canadians facing housing problems. There are households at all income levels who face problems of housing affordability, adequacy or over-crowding. The main distinction between these households and those in core housing need is that the latter, particularly renters, have little or no housing alternatives. Suitable and adequate shelter is simply not affordable for them in their locality.

## CURRENT PROGRAMS: URBAN SOCIAL HOUSING

Current social housing programs address, to a greater or lesser extent, the housing problems identified above. However, in attempting to address a range of problems, they have not effectively focused on those most in need.

The problems faced by core need households show that, while there is a need for subsidized housing supply, a great many of these households live in adequate housing and simply require assistance to enable them to afford their shelter costs. Yet in 1984, 95% of the social housing activity in urban areas was directed to increasing housing supply. While this was a necessary response to low-income housing problems in the post-war period when problems of housing adequacy were paramount, it does not respond to the major low-income housing problem of the 1980s, which is the inability to pay for decent housing.

The range of programs available currently have widely different subsidy costs associated with them. Table 3 shows the estimated present value of total future subsidy obligations associated with one unit committed through different program instruments.

**Table 3. Estimated per Unit Subsidy costs of Urban Social Housing Programs**

| **Program** | **Present Value of Total 35-Year Subsidies ($)** |
|---|---|
| Non-Profit and Cooperative Housing | 31,500* |
| Public Housing | 64,000 |
| Rent Supplement | 30,000 |
| Urban Native Housing | 56,000 |

* This is the subsidy cost per unit, including both income-tested and non-income-tested households. The total subsidy per low-income household is $79,000, assuming surpluses are returned to government.

A summary of current programs shows that:

a. While a mix of different instruments is available, it is ineffective in responding to needs. Core housing need is reduced by only one per cent a year;

b. There is an over-emphasis on costly housing supply programs and insufficient use of lower-cost programs designed to meet only problems of housing affordability;

c. The Residential Rehabilitation Assistance Program (RRAP) is a cost-effective way to meet problems of housing adequacy faced by core need households, but it has not traditionally been used as a social housing program;

d. In pursuing other objectives, including the provision of mixed-income projects, increasing the stock of rental housing or improving housing quality, programs - especially Non-Profit and Cooperative Housing and RRAP - have been aimed at the broadly-based population with housing problems, at the expense of those most in need;

e. There are several advantages of the Non-Profit and Cooperative Housing Program, such as the use of private lender capital and the involvement of locally-based non-profit and cooperative groups in delivery;

f. Non-Profit and Cooperative Housing is used to provide Special Purpose Housing, such as nursing homes, group homes and crisis centres. These facilities also receive per diems from provincial departments of health and social services, which are cost-shared by the federal government;

g. Most current programs involve long-term subsidy commitments (35 or 50 years); this is not the case for RRAP and not necessarily the case for Rent Supplement;

h. The main program instruments, Non-Profit and Cooperative Housing and RRAP, are federally funded and require no financial contributions from the provinces.

**CURRENT PROGRAMS: RURAL AND NATIVE HOUSING**

Different program instruments are in use in rural areas, reflecting the increased importance of housing adequacy problems and the general lack of rental accommodation. In addition, housing programs are offered for Native Canadians, by CMHC for Metis and Non-Status Indians and by both CMHC and Indian and Northern Affairs Canada (INAC) for Status Indians on reserves. Table 4 shows the estimated present value of the subsidy costs associated with the principal program instruments.

Table 4. Estimated Per Unit Subsidy Costs of Rural and Native housing (RHN) Programs

| Program | Present Value of Total 35-Year Subsidies ($) |
|---|---|
| RNH Home Ownership | 34,000 |
| RNH Rental | 64,000 |
| On-Reserve (CMHC) | 51,000 |

A review of these programs shows that:

a. The provision of subsidized home ownership has created financial burdens for low-income households, generated community resistance and resulted in administrative difficulties in remote areas;

b. A package of program instruments is available in rural areas, but it requires modifications to comprise a comprehensive housing strategy;

c. On-going negotiations with the provinces may lead to some of them paying none of the subsidy costs for Rural and Native Housing, but retaining responsibilities for program delivery. This could result in a lack of incentive to control program costs and may threaten federal accountability;

d. On reserves, both CMHC and INAC provide subsidies. A proposal from INAC for block funding to give Indian Bands greater discretion in their use of housing funds suggests that consolidation of these subsidies would be appropriate to allow for full Band control.

## FEDERAL/PROVINCIAL RELATIONS IN SOCIAL HOUSING

Prior to 1978, most government involvement in social housing was through programs cost-shared by the federal and provincial governments. These cost-sharing arrangments were either on a 50/50 basis or a 75/25 basis. In 1978, the federal government introduced the Non-Profit and Cooperative Housing Program, relieving the provinces of their obligation to cost-share. Provinces have generally responded in one of three ways: transferring funds out of the social housing area; initiating unilateral programs of their own (mainly shelter allowances or renovation programs); or stacking assistance on to the federal program.

Table 5 summarizes the estimated federal and provincial shares of social housing expenditures. The figures provided for 1984 expenditures show estimates of actual expenditures on all federal, provincial and cost-shared programs, including the amounts paid on units committed in past years. The second set of figures shows the estimated present value of future subsidy obligations for units committed in 1984. While in some ways more hypothetical, this represents the relative proportions being committed for current social housing activity.

For the country as a whole, actual federal expenditures in 1984 represented 64% of the total. However, for new activity, an estimated 80% of expenditures are paid by the federal government. This largely portrays the shift away from cost-shared programs to unilateral federal subsidies. There is considerable variation across provinces, but in virtually all cases provinces are paying a lower share of the subsidy for current activity than they do for past subsidy obligations.

TABLE 5

FEDERAL/PROVINCIAL COST SHARING ARRANGEMENTS ON THE SOCIAL HOUSING PORTFOLIO (INCLUDING RENOVATION)*

| | Capital | | Subsidy | |
|---|---|---|---|---|
| | Federal % | Provincial | Federal % | Provincial % |
| **Newfoundland** | 79 | 21 | 79 | 21 |
| Present value of future subsidy | | | 87 | 13 |
| **Prince Edward Island** | 70 | 30 | 83 | 17 |
| Present value of future subsidy | | | 88 | 12 |
| **Nova Scotia** | 57 | 43 | 71 | 29 |
| Present value of future subsidy | | | 74 | 26 |
| **New Brunswick** | 51 | 49 | 77 | 23 |
| Present value of future subsidy | | | 98 | 2 |
| **Quebec** | 100 | - | 61 | 39 |
| Present value of future subsidy | | | 79 | 21 |
| **Ontario** | 58 | 42 | 66 | 34 |
| Present value of future subsidy | | | 90 | 10 |
| **Manitoba** | 79 | 21 | 56 | 44 |
| Present value of future subsidy | | | 73 | 27 |
| **Saskatchewan** | 75 | 25 | 75 | 25 |
| Present value of future subsidy | | | 75 | 25 |
| **Alberta** | 2 | 98 | 43 | 57 |
| Present value of future subsidy | | | 47 | 53 |
| **British Columbia** | 100 | - | 82 | 18 |
| Present value of future subsidy | | | 90 | 10 |
| **Yukon** | 76 | 24 | 82 | 18 |
| Present value of future subsidy | | | 78 | 22 |
| **Northwest Territories** | 76 | 24 | 50 | 50 |
| Present value of future subsidy | | | 75 | 25 |
| **Canada** | **55** | **45** | **65** | **35** |
| **Present value of future subsidy** | | | **80** | **20** |

* All expenditures shown were for 1984.

Provincial governments currently deliver those programs funded through "global agreements", which permit provincial control and discretion over a portion of the social housing allocation. Programs covered by the global agreements include public housing, rent supplement and some non-profit housing (mainly provincial or municipal). Some provinces also deliver rural and native housing. CMHC directly administers non-profit housing (mainly private non-profit and some municipal), cooperative housing, Residential Rehabilitation Assistance Program and some rural and native housing.

Provinces have recently proposed expansion of the global agreement to cover all social housing programs, including federal, provincial and cost-shared initiatives. No details on the funding arrangements of such an expanded global agreement have been offered by the provinces.

There are valid arguments in support of an expanded role for the provinces in social housing delivery. It would eliminate the duplication created by both federal and provincial governments having delivery capability for social housing. It would permit better integration and coordination of federally and provincially funded housing programs as well as other provincial programs, such as social services. It would increase responsiveness of housing programs to particular provincial and local needs.

However, there are a number of concerns with an expanded global agreement which temper the extent to which such an approach is advisable, or affect the way in which it should be put in place. First, it is the responsibility of the federal government to ensure equitable access to federal funds provided for housing. Thus, although local flexibility is desirable, this must not be achieved in a way which denies access to federally-funded benefits to citizens in one part of the country and grants them in another.

Second, it should be recognized that federal and provincial objectives and priorities in social housing are not always the same. Provincial governments, for example, favour housing supply programs, even if federal analysis shows that rental support programs are more appropriate to needs. Most provincial governments give significantly higher priority to senior citizens to the detriment of low-income families; most give no priority to Native households; some refuse to serve low-income non-elderly single individuals. If the federal government has any interest in ensuring its objectives and priorities are met, it must retain an active role in social housing.

Third, unless provinces significantly increase their financial contributions to social housing, there is a significant danger of the federal government paying the bills with the provinces having control over expenditures. Such a situation threatens federal accountability, visibility and control over program cost and effectiveness.

In summary, the study team believes that while there are opportunities to change the respective roles of the federal and provincial governments in social housing, these must involve redressing the imbalance in funding arrangements, retaining a strong federal presence in planning, monitoring and controlling social housing programs and ensuring that federal objectives and priorities are fulfilled.

## PROPOSALS FOR A NEW SOCIAL HOUSING STRATEGY

The aims of the study team in proposing a revised social housing strategy are:

a. To develop programs which correspond to social housing needs. The major problem facing low-income households in the 1980s is the inability to afford adequate housing. The major response has been the provision of new units, which is a costly and slow process.
b. To target social housing subsidies to those most in need. Many Canadians have housing problems, but there are over one million households who are unable to afford an adequate housing unit in their market area. Given the magnitude of the problem and the limits on funds available, subsidies must be directed to those households in greatest need.
c. To redress the imbalance in federal-provincial cost-sharing of social housing. Provinces, since 1978, have used the availability of unilateral federal funding for social housing to reduce their financial contributions. This limits the extent to which outstanding needs can be met.
d. To avoid duplication in having more than one federal agency providing subsidies to housing projects. Currently, both CMHC and INAC provide subsidies for on-reserve housing. CMHC subsidizes special purpose housing, which receives the bulk of its financial support through the federal/provincial Canada Assistance Plan (CAP) or Established Programs Financing (EPF).

e. To reduce the extent to which funds are "locked-in" to long-term commitments. Programs which add to housing supply entail subsidy commitments of 35 to 50 years. Rent supplement and the Residential Rehabilitation Assistance Program (RRAP) can have shorter subsidy time frames. To some extent, support for low-income housing requires a long-term moral commitment even if the financial commitment is limited. Nevertheless, flexibility to introduce new programs or changes to existing programs is severely hampered by locked-in expenditures.

**Urban Social Housing Strategy**

The study team recommends to the Task Force on Program Review that the government consider that new activity under the current package of programs should be curtailed and replaced with the following:

a. Increased use of rent supplement, with a modification to encourage rent supplement agreements with landlords of tenants currently living in adequate units but facing affordability problems. A change to the rental scale to range from 25% to 30% is proposed, along with maximum rent limits to ensure only moderately-priced accommodation is subsidized. In those provinces with existing shelter allowance programs, consideration could be given to using this instrument in lieu of rent supplement, provided that some measures are put in place to control costs.

b. A new community housing program, combining the best features of non-profit housing and public housing. This program would involve 100% insured loans from private sources, with subsidies to provide all tenants with rent-to-income assistance. Projects would be small scale to provide integration within the neighbourhood and would be delivered by non-profit or cooperative groups, provincial or municipal governments or the private sector.

c. RRAP for low-income homeowners and for landlords, changed to target assistance to those in core need and to restrict repairs to items essential to health and safety. No change in the subsidy level is proposed at present, but it should be monitored to ensure that those most in need are able to achieve full repairs.

The study team further believes that such a revised package of programs would be combined with changes in financial and delivery arrangements, which would require negotiation with the provinces.

First, provinces would be requested to share the costs of each program on a 50/50 basis. Where a province agreed to do so, it would have the lead role in program administration, although the federal government would continue to be involved in planning, monitoring and controlling. If a province chose to participate to a lesser extent, or not at all, the federal government would continue to provide the same amount of funding as it would have with full cost-sharing; the result would be an overall reduction in activity. For example, if a particular province would have received an overall allocation of 1,000 units on a 50/50 cost-sharing basis, and the province agreed to share only on a 75/25 basis, the federal government would continue to fund 500 units in the province; the province's contribution would enable a total of 667 units to be funded. The agency with the higher financial contribution would generally take the lead role in administration, but this would be negotiated according to respective delivery capabilities. Under no circumstances should provinces not making financial contributions assume the delivery and administration function.

Second, the mix of programs requires that a careful assessment of needs and local market conditions be undertaken to select the most appropriate instrument. RRAP should be used to respond to problems of housing adequacy without affordability problems. Rent supplement should be used to address other social housing problems as the first option in all cases where it is feasible. The Community Housing Program would only be used where it is essential to provide low-income housing supply. This assessment would require joint planning of both the federal and provincial governments, along with local or community representatives.

Third, it is anticipated that this process would lead to a shift in the mix of programs away from the supply of housing towards rent supplement. While estimates of the shift are difficult to predict, there is considerable room for moving from the 95/5% split that currently favours supply programs. The impact of this, along with the use of RRAP, would be a decrease in locked-in, long-term subsidy commitments. At some future date, if the government were interested in introducing a shelter allowance or alternative programs, there would be greater flexibility to do so.

**Moderate-Income Households**

The social housing strategy proposed above would target all subsidies to those households most in need. This is a significant departure from current programs, especially Non-Profit and Cooperative Housing and RRAP, which are directed to a broader target group.

In recognition of the potential reaction from interest groups to total removal of assistance for moderate-income households, the study team proposes to the Task Force that no- or low- cost measures be investigated for this purpose. In particular,

a. a demonstration project be undertaken to assess the viability and feasibility of using Price-Level Adjusted Mortgages (PLAM's) as a means of financing cooperative or non-profit housing without recourse to a direct subsidy; and

b. the need for options to encourage renovation be explored, including the provision of information, inspection services, access to financing and assistance with contractors, as well as the feasibility of alternative mortgage instruments, such as reverse mortgages.

**Special Purpose Housing**

Subsidized capital funding is now used to cover a portion of the costs of nursing homes, group homes and transition or crisis centres. Health or social services budgets typically provide per diems to cover all or a portion of the remaining costs.

In recognition of the overlap in housing and health and social services budgets, the study team is recommending that federal-provincial discussions involving all affected agencies be held with a view to ultimately limiting housing assistance to unsubsidized insured or direct loans. This would mean that per diems, provided by the provinces, and cost-shared by the federal government through the Canada Assistance Plan or Established Programs Funding, would be used to pay the full repayment costs of these loans. In the interim, although the Non-Profit and Cooperative Housing Program would be replaced by the revised social housing strategy, a small allocation (approximately 2,000 units) should be retained through Section 56.1, National Housing Act, for special purpose housing.

## Urban Native Housing

The proposed Community Housing Program would provide the same benefits for urban native housing as are currently offered through the enriched Non-Profit program, and so should replace the current initiative. It is recommended that a special allocation for urban native housing be retained under the new program, in recognition of the difficulties Native groups may have if forced to compete with more sophisticated municipal non-profit or private developers for units.

## Rural and Native Housing Strategy

The RNH programs are used in a range of quite different locations and circumstances, from small towns on the fringe of major urban centres to remote settlements miles from the nearest civilization. It is difficult to conceive of programs suitable for one location being appropriate for the other. The study team proposes, therefore, one strategy for rural areas and small communities and a separate one for remote areas. Native Canadians would be included in both of these situations, depending on their location. Status Indians on reserves are considered separately.

## Rural, Native and Remote Housing

The following package of programs is proposed to the Task Force as an ultimate strategy for low-income Native and non-Native households in rural areas and small communities:

a. Rural residential rehabilitation assistance, RRAP, would be continued, targeted to those most in need and limited to the repair of items essential to health and safety;
b. Housing "kits" consisting of a package of basic materials to be assembled by occupants would be provided through front-end funding for those able to construct and maintain their own dwellings;
c. The proposed new Community Housing Program would be made available in rural areas, as in urban, to provide subsidized rental accommodation to those for whom home ownership is not affordable or appropriate;
d. The Emergency Repair Program would be continued to meet critical housing needs and be made available to both Native and non-Native households in need.

In remote areas, the same package of programs would be offered, with the exception of the Community Housing Program which would be replaced by:

a. A lease-purchase program for manufactured housing, including mobile homes, for those unable to assemble housing kits. This program would involve rent-to-income payments which could eventually be applied to the purchase price.

Because the use of housing kits is a relatively new concept, it is proposed that a demonstration program to assess its feasibility and impacts be undertaken. The current home ownership program would continue in the interim in rural areas, but in remote areas it should be replaced by the proposed lease-purchase program for manufactured housing.

The above packages of programs would be cost-shared by the provinces in the same fashion described for urban programs. In each case, a consolidated delivery system, through local, regional or provincial governments or non-profit groups should be put in place to deliver all components of the program. This would ensure identification of the most appropriate instrument to meet the needs of a particular household.

**On-Reserve Housing**

Given the responsibility of INAC for status Indians on reserves and future directions towards block funding to Indian bands, the study team proposes that the subsidies currently provided by CMHC for On-Reserve Housing be consolidated at Indian Affairs.

While firm proposals for the use of these subsidies would be inconsistent with a block funding approach, attempts should be made to encourage the continuation of subsidized loans with repayment provisions rather than relying solely on front-end grants. To facilitate the availability of loan financing, CMHC would continue to make available unsubsidized insured or direct loans to Indian bands, as is done for all Canadians. Technical expertise required to put housing in place could also be provided by CMHC through contracts with INAC or individual Bands.

## EXISTING SUBSIDY COMMITMENTS

Each public housing and non-profit or cooperative housing and rural and native housing unit involves an on-going subsidy expenditure for either 35 or 50 years. The 400,000 units currently in place will require subsidies beyond the end of the century.

To some extent, on-going subsidies reflect the reality that there will always be some members of society for whom market housing is not affordable. Even in the absence of a financial commitment, there is an obligation to provide assistance to those in need. Nevertheless, the mounting subsidy bill which is generated through the commitment of housing units in previous years, presents some opportunities for reductions. As well, it is important to move towards equitable treatment of those currently being assisted with those who would be served by new programs.

The study team recommends the following measures be considered by the Task Force in order to reduce subsidies or improve targeting in the existing stock of social housing:

a. Introduce a new federal rent scale graduated from 25% to 30% of total household income, taking into account household size and income level. This scale would be applied to all income-tested households in non-profit and cooperative housing, public housing, and rural and native rental housing and those receiving rent supplements. It should be phased in over a three-year period in order to minimize financial hardship for tenants;
b. Initiate federal/provincial negotiations involving housing and welfare agencies to charge market rents to social assistance recipients living in subsidized housing as long as this would not increase the financial burden on tenants;
c. Increase rental charges to market rent for non-income-tested households in non-profit and cooperative housing projects;
d. Encourage provincial governments to seek administrative economies in public housing, particularly in maintenance and operating budgets, but not at the expense of federal accountability;
e. Allow for subsidy pooling across portfolios of non-profit and cooperative housing, with controls to ensure all projects are balanced with respect to income mix.

## IMPLICATIONS

### Organizational Implications

The recommendations respecting social housing and rural and native housing represent a significant departure from current programs, mainly through much improved targeting to those most in need and increased financial participation from the provinces. While in principle, targeting to the needy is accepted, there is strong support for the status quo from a wide range of interests.

From its discussions with provincial administrators, the study team concludes that - at least at the official level - there is sympathy for the idea of cost-sharing, or better cost-matching. However, most would not support a 50-50 split, nor would they endorse proposals for federal administration or control. Most provincial administrators support better targeting, but generally prefer supply programs and would not likely endorse a greater emphasis on rent supplement.

Municipalities have put forward proposals for a mix of programs and would likely support the proposed social housing strategy, with two major exceptions: (a) they have strongly supported mixed-income housing and would not appreciate the emphasis on 100% targeting; and (b) they would not likely support changes to the RRAP program.

Interest groups, in particular the Cooperative Housing Foundation of Canada and non-profit groups, would protest discontinuation of the Non-Profit and Cooperative Housing Program. The opportunity for non-profit or cooperative groups to deliver the Community Housing Program, and the proposal for a demonstration of Price Level Adjusted Mortgages (PLAM's) may go some way to satisfying these concerns, but would not fully meet their demands. Interest groups for Special Purpose Housing would protest strongly any change in housing subsidies for care facilities.

Industry associations would generally support the move to increased targeting and the de-emphasis of housing supply programs. While some have supported shelter allowances, they may be satisfied with increased use of rent supplements.

Indian associations would likely support the move to consolidate on-reserve housing subsidies at INAC and the ultimate move towards block funding. Native associations would support continuation of the Urban Native Program and may endorse proposed changes to the RNH Program, but would not appreciate changes to the Emergency Repair Program.

**Financial Implications**

Given that the costs of social housing can be controlled through specification of the number of units to be provided, there is a range of options for the costs of the revised social housing strategy. Further complicating the assessment of financial implications is the uncertainty of provincial cost-sharing.

To display the range of potential options, four combinations of the number of units and cost-sharing arrangements have been considered:

a. Retaining the same number of units as are provided currently, but targeting them all to the needy would result in an increase in federal expenditure if no provincial contributions were forthcoming. The increase is estimated to be $9 million in 1986/87, $54 million in 1987/88 and $75 million in 1988/89;
b. Retaining the same number of units as are provided currently and targeting them all to the needy but with 50/50 provincial cost-sharing could result in estimated reductions in federal expenditures of $20 million in 1986/87, $25 million in 1987/88 and $45 million in 1988/89;
c. The same level of federal expenditure, but targeting all units to the needy, with no provincial contributions, would mean approximately 5,000 fewer units (a 25% reduction) could be provided each year. This would, nevertheless, serve twice as many households in need as are currently served each year;
d. The same level of federal expenditures, but targeting all units to the needy, with 50/50 provincial cost-sharing would mean an increase of approximately 5,000 units could be provided each year. The ultimate impact would be three times the number of needy households served than are served currently.

The financial implications of the recommendations respecting the Rural and Native Housing Program also depend on the arrangements negotiated with the provinces for

cost-sharing, as well as on the proportion of rental accommodation which is provided. With no provincial contribution, an increase in federal expenditure would occur if increased emphasis were placed on rental accommodation. With provincial 50/50 cost-sharing, reductions in federal expenditures are estimated to be $10 million in 1986/87, $8 million in 1987/88 and $5 million in 1988/89.

The remaining proposals for Social Housing involve potential expenditure reductions for the existing stock under administration. The estimates provided are very preliminary and assume that the tenant mix does not change significantly. If the changes introduced to rental charges were to result in higher-income tenants vacating the projects, subsidy costs may not decrease and, in the worst case, could rise.

| | | **($ millions) Estimated Maximum Reduction** |
|---|---|---|
| a. | Revised Federal Rent Scale | 76.4 |
| b. | Increased Rents for Social Assistance Recipients | 6.4 |
| c. | Increased Rents for Non-Income-Tested Households | 12.0 |
| d. | Administrative Economies | - |
| e. | Subsidy Pooling | - |

**Legislative Implications**

Revised legislation may be required for:

a. the Community Housing Program;
b. Housing kits if introduced beyond the demonstration stage; and
c. Price Level Adjusted Mortgages if a Ministerial guarantee is required.

## CONCLUSIONS

The record of current programs in meeting social housing needs is dismal. Because expensive, long-term supply programs have been used and programs have not been directed solely to those in need, there has been a minimal impact on resolving the housing problems of low-income Canadians.

There is support for the status quo, partly because it seems to have community acceptance and there are fears that better-targeted programs would not, and also because there are strong vested interests in retaining the current delivery system. At the same time, there is mounting public criticism of this inefficient use of federal subsidies, a concern which is voiced by industry associations involved in housing.

The revised social housing strategy proposed by the study team could result in up to three times the number of needy households assisted each year for the same federal expenditure. Given sensitive program design and delivery, there would be no reason to encounter community resistance and yet all subsidies would be targeted only to those with the greatest need.

A shift away from long-term housing supply programs would also increase federal flexibility to introduce modified or new programs at some future date. Opportunities for reducing subsidies on previous commitments are limited, so changes in federal expenditures will need to come primarily from a change in future strategy.

Finally, with respect to federal/provincial relations, some resistance to the proposed strategy can be expected. However, if the federal government is to fulfill its responsibility to those in need, it is critical that it retain an active financial and administrative role in social housing. Provinces may have different priorities and objectives and a widely varying financial commitment to social housing. While an increased provincial role is a key component of the proposed social housing strategy, a decline in federal responsibility would mean serious inequities in the housing assistance offered to low-income Canadians throughout the country.

## NON-PROFIT AND COOPERATIVE HOUSING PROGRAM
## Canada Mortgage and Housing Corporation

### OBJECTIVES

The primary objective of this program is to produce modest, affordable housing appropriate to the needs of low- and moderate-income families and individuals.

In order to reduce government cash requirements, a second objective of the program is to encourage private sector lenders to provide the capital required to produce this housing.

CMHC has introduced a management objective to maximize the cost-effectiveness of the program and its targeting to low-income households.

### RESULTS/BENEFICIARIES

In 1978, the new Non-Profit and Cooperative Housing program was introduced to replace previous programs which had been funded through Sections 15.1 and 34.18 of the National Housing Act.

Between 1979 and 1984, 4,041 non-profit and cooperative housing projects, with a total of 123,746 units have been provided through this revised program. Public non-profit housing corporations (provincial or municipal) account for 42,265 units, private non-profit corporations for 52,638 units and cooperatives for 28,843 units.

In 1984, 6,310 public non-profit, 6,548 private non-profit and 3,877 cooperative housing units were provided for a total of 16,735 units (excluding Native housing).

### AUTHORITY

The National Housing Act, Section 56.1 for the subsidy assistance, and Section 37.1 for Project Development Funding (PDF) and the Community Resource Organization Program (CROP).

RESOURCES ($ millions)

| | 83/84 | 84/85 | 85/86 | 86/87 | 87/88 |
|---|---|---|---|---|---|
| **Grants, Contributions & Subsidies** | | | | | |
| Section 56.1 | 342.8 | 473.6 | 572.8 | 637.6 | 657.5 |
| Section 37.1 | 1.5 | 1.5 | 2.1 | 2.3 | 2.2 |
| Non-budgetary | | | | | |
| Section 37.1 | 7.6 | 8.8 | 9.0 | 9.7 | 10.2 |

| | 1984 | |
|---|---|---|
| Administration | | |
| Section 56.1 | 6.9 | |
| Section 37.1 | 0.8 | (includes Rural and Native program support) |
| Person-years | | |
| Section 56.1 | 166 | |
| Section 37.1 | 17 | (includes Rural and Native program support) |

DESCRIPTION

Non-profit and cooperative housing can take a variety of forms: single or multiple housing, hostel accommodation, care facilities or group homes. It can be provided by constructing new buildings or acquiring existing buildings and rehabilitating them, as necessary. Occupants of non-profit and cooperative housing include families, senior citizens and persons with special housing needs, such as the disabled.

Each year, a total allocation of subsidy units is made available for NHA social housing programs. A portion of these units is provided to the provinces, through global funding agreements, for provincial delivery. In general, these are for provincial or municipal non-profit housing corporations. The remainder, usually private non-profit and cooperative housing units, are delivered directly by CMHC. Under the global funding arrangements, provinces target their allocations according to their own priorities, in consultation with CMHC.

For CMHC-delivered programs, a competitive process has been introduced to ensure the best-targeted and most cost-effective project proposals are selected. Sponsors requiring funds to develop their proposals are eligible to apply for loans under Section 37.1 Proposal Development

Funding. If proposals are accepted, the loans provided are capitalized in the cost of the project. If the proposal is rejected, the Proposal Development Funding loans are forgiven.

The Community Resource Organization Program (CROP) provides financial assistance to resource groups offering technical and professional services to non-profit and cooperative housing groups. Average grants per year are $50,000 per resource group, which is intended to cover basic administration and operating costs until the group becomes self-sufficient.

The Section 56.1 program comprises three components: public non-profit, which may be municipal or provincial; private non-profit; and cooperative. While all three components are basically similar, there are certain key differences which are described below.

**PRIVATE AND PUBLIC NON-PROFIT HOUSING**

Loans of up to 100% of the accepted capital costs of a housing project are made to municipal and private non-profit corporations by private lenders, generally with NHA insurance. Provinces are entitled to maximum loans of up to 90% of acceptable capital costs. The federal government then makes contributions towards the operating costs (including mortgage costs) of these projects up to the difference between monthly amortization costs at the market rate of interest and those at an interest rate of 2%.

The federal contribution provides two forms of assistance to the projects. The first bridges the gap between economic rent (that is, the rent required to break even on a project) and the lower end of market rent (that is, the rent established each year by CMHC and the province as representing the lower range of rents for equivalent accommodation in a given market area). The remaining assistance is used to aid tenants who cannot afford market rents by offering them rents geared to their incomes (equivalent to at least 25% of their adjusted family income). The programs are intended to encourage a mixture of rent-to-income and market-rent tenants.

In addition to offsetting on-going operating costs, a portion of the Section 56.1 assistance in CMHC-led projects may be deposited in a subsidy surplus account. This account may not exceed $500 per unit plus accumulated interest. The

subsidy surplus account may only be used in future years to offset project deficits where the maximum Section 56.1 subsidy is not sufficient to do so. Residual Section 56.1 assistance is to be returned to the Consolidated Revenue Fund.

Public non-profit projects are developed and administered by provincial or municipal non-profit housing corporations. Three provinces and the Yukon Territories are directly involved in delivery of non-profit housing: Nova Scotia, Quebec and Saskatchewan. Private non-profit corporations arise in a number of ways. In some cases, they are formed by informal community-based groups; in others they are formed by sponsoring organizations such as the Kiwanis.

**COOPERATIVE HOUSING**

In housing cooperatives, the housing is owned collectively by the cooperative members who each own a share of the project. Cooperatives are generally community-based, formed by groups of individuals who will both develop and reside in the housing projects.

Cooperatives obtain 100% loans from approved lenders and receive Section 56.1 assistance equal to the difference between the market interest rate and 2%. However, the subsidy arrangement for cooperative housing is somewhat different than that described for non-profit housing. A predetermined amount of assistance, based on the difference between economic rent and the maximum occupancy charge (project rent) is established for a three-year "grace" period. During that period, any changes to the occupancy charges for individual cooperative units are based solely on changes in operating costs. In the fourth and subsequent years, occupancy charges related to mortgage payments increase by 5% per year compounded until such time as full mortgage payments are reached. This separation between the mortgage amortization costs and other operating expenses is intended to provide an incentive to cooperative members to keep operating cost increases low. Any surplus assistance resulting from savings in operating costs is retained by the cooperative.

The remaining Section 56.1 assistance is available for income-tested occupants. A subsidy surplus pool of up to $500 per unit may be established by the cooperative only after 15% of the units are occupied by income-tested

households. The account is used to supplement low-income households in future years when subsidy requirements exceed the assistance provided.

**OBSERVATIONS**

Non-profit and cooperative housing has become the main vehicle for providing social housing assistance. In 1985, 78% of the 22,638 units allocated to social housing are directed through this program. If these units are not targeted to low-income households, the impact on resolving outstanding social housing needs is minimal.

Estimates are that only one-third of the units provided through Non-Profit and Cooperative Housing are directed to those most in need. This is because the program was designed to serve a mix of income groups and, in fact, serves households with a range of incomes similar to that of the general renter population.

The cost of income mixing is high. Because there is a significant gap between economic rent (the real cost of the unit) and the lower end of market rent paid by non-income-tested tenants, heavy subsidies are paid to households which are not among those most in need. Between 40 and 60% of the overall subsidy over 35 years is directed to the non-needy.

On the other hand, strong views are expressed in support of income mixing. It is considered to have social benefits and to lessen community resistance to social housing projects.

Subsidy costs per unit per year are approximately $5,200 for public non-profits, $4,500 for private non-profits and $5,900 for cooperatives. These subsidy costs extend over 35 years and result in significant amounts of "locked-in" expenditure.

Subsidy costs are very sensitive to interest rates. They are also determined by capital costs. There is some evidence to indicate capital costs in non-profit and cooperative projects are higher than in comparable private sector projects, although precise estimates of this difference are not available.

Subsidy costs for cooperatives are higher than for non-profit projects, in part because of the type of client group served (mainly families) and the type of accommodation provided (mainly ground-oriented). As well, these higher costs reflect a difference in the subsidy formula, which allows non income-tested clients a three-year "grace period" where rents are increased only to cover increases in operating costs. In non-profit projects, rents are increased annually from the first year to reflect increases in market rents in comparable private sector housing.

Non-profit and cooperative housing has made a significant contribution to the stock of rental housing, and played a particularly important role in the period of high interest rates when private sector activity was severely restricted. One of the benefits of the program, therefore, is its long-term impact on the supply of affordable housing.

At the same time, this feature of the program has been criticized by private sector representatives who perceive the provision of subsidized market rent units as creating unfair competition. It has even been suggested that the program restricts private sector activity by reducing demands for market accommodation. This may be true in smaller centres and in areas with high vacancy rates.

Provincial governments have played varying roles with respect to non-profit and cooperative housing. Some provinces, for global units (which represent just under 40% of the total number of units in 1985), add on provincial assistance to improve the income penetration of the program. Quebec and Manitoba provide sufficient assistance to ensure 100% targeting to those in need. Ontario provides assistance to provide 35% targeting for family projects and 50% targeting for senior citizens. British Columbia and Saskatchewan provide capital grants (25% and 20% respectively of total capital costs). Alberta has, in the past, operated parallel programs but has indicated a willingness to add provincial subsidies to federal projects to achieve 100% targeting. The Atlantic provinces either do not use Section 56.1 or provide no additional subsidies (except for nursing home projects). In general, units delivered directly by CMHC do not receive additional provincial subsidies.

Provincial governments are seeking to expand global agreements to include all social housing programs and to achieve provincial delivery of all social housing. The

extent to which provinces would be willing to increase their financial contributions to match these increased responsibilities is not known.

Provincial delivery would result in some savings in administrative costs through a reduction in the social housing delivery capacity of CMHC. It is known, however, that provincial priorities do not always match those of the federal government. Even with increased delivery by the provinces, a strong federal role would be required if federal objectives are to be met.

The nature of the non-profit and cooperative housing subsidy formula means that subsidy requirements decline over time if the income mix in the projects remains relatively constant. Current program rules require that any excess subsidy be returned to the government. Non-profit and cooperative groups argue that if they were allowed to "pool" their subsidies across a portfolio of projects built during different time periods, deeper income penetration could be achieved as newer units could be cross-subsidized by older projects with lower subsidy requirements. There is merit to this argument, although controls would be required to ensure a reasonable income mix is achieved in all projects.

A proposal has been put forward by the Cooperative Housing Foundation to introduce Price-Level Adjusted Mortgages (PLAMS) in order to reduce subsidies for the program. This innovative mortgage financing technique uses a "real" rate of interest, that is, one without an inflation premium or a premium for inflation risk. Each year, or twice a year, principal outstanding and the monthly payments are multiplied by the Consumer Price Index to reflect the actual rate of inflation. PLAMs have two important effects. First, with such indexed mortgages, lenders are guaranteed a real rate of return which eliminates or reduces the need for an inflation risk premium. The result is lower interest rates. Second, traditional mortgages have a "tilt" factor - real costs are high in early years and lower in later years. PLAMs erase or modify this tilt factor, keeping real costs more stable over the life of the mortgage by linking payments directly to the inflation rate.

The Cooperative Housing Foundations has estimated that this type of mortgage arrangement could reduce Section 56.1 subsidies by an average of 70%. PLAMs could be used as a way of stimulating rental market housing with no subsidy involved, although there is a contingent liability to the

government through guarantees or insurance on these mortgages.

## OPTIONS

**Modifications to the Program.** A number of improvements could be made to the non-profit and cooperative program which would reduce its cost or increase its targeting to those in need. In general, these modifications would have a relatively minor impact and would not address the fundamental deficiency of the program as a social housing tool - that is, without additional provincial contributions the program does not provide sufficient subsidy assistance to fully target to those in need. Nevertheless, if the program is retained in its current form, the following changes would, in the view of the study team, represent improvements:

a. Increase rents paid by non-income-tested occupants from the lower end of market rent to market rents. On average this would represent a 5% increase, but varies significantly throughout the country and may need to be phased in, in some areas.

b. Change rents paid by income-tested occupants to a graduated scale from 25 to 30% of income. Approximately one-third of income-tested households already pay more than 30% of their income for rent so they would experience no increase.

c. Eliminate the "grace period" in cooperative housing, so that non-income-tested residents have normal rent increases from the first year of the project.

d. Allow for subsidy pooling across portfolios, with controls to ensure all projects are balanced with respect to income mix.

e. Implement a "best-buy" policy, with greater emphasis on the acquisition and renovation of existing units in markets with sufficiently high vacancy rates, rather than the construction of costly new projects.

f. Encourage more participation by the private sector through "turn-key" projects which reduce the costs of project development.

g. Review the system of cost controls to identify other ways of achieving economies in capital costs and of ensuring the production of modest housing.

There may be legal impediments to changing the program in this fashion for existing projects. Negotiations with non-profit and cooperative groups would be required to change existing operating agreements.

**Replace the Program with PLAMs plus a rental subsidy for low-income households:** It has been estimated that the "real" interest rate using a PLAM could be as low as 4%. Depending on the precise design of the program, this mortgage arrangement might be sufficient to reduce economic rents to market rents with no subsidy assistance. Subsidies could then be fully directed to low-income households. Approximately one-half the subsidy currently provided through Section 56.1 is directed to non-income-tested occupants. This option, therefore, could result in significantly more low-income households served for the same costs or reductions in the overall costs of the program.

**Replace the program with a new Community Housing program fully targeted to those in need:** There are numerous examples throughout the country of successful social housing projects which are 100% targeted to low-income households. Newfoundland, Prince Edward Island, Nova Scotia, Quebec, Manitoba, Saskatchewan and Alberta have, through continuation of public housing or adding provincial subsidies to Section 56.1, provided fully-targeted social housing. Small-scale projects, either scattered units, or projects with less than 30 households, are most appropriate for this approach. All subsidies are directed only to those in need.

This option would have the following features:

a. Federal-provincial cost-sharing on a 50/50 basis.

b. All tenants would pay from 25 to 30% of their income for rent.

c. Capital financing would be provided by the private sector, with loans insured under the National Housing Act.

d. Project development and administration could be undertaken by municipal non-profit housing corporations, private non-profit groups, cooperatives, provincial or federal housing agencies or the private sector.

e. The program would be used to add to the supply of low-income housing, but would only be applied in those areas with low vacancy rates or with other constraints on the supply of rental accommodation.

The study team recommends to the Task Force that the government consider the following:

Replacing the Non-Profit and Cooperative Housing program with a revised Social Housing strategy consisting of the following elements:

a. Increased use of a modified Rent Supplement program.

b. A new Community Housing program involving 100% insured loans from private sources for small-scale projects with subsidies to provide all tenants with rent-to-income assistance.

c. A modified Residential Rehabilitation Assistance Program.

Implementing a demonstration program to assess the feasibility of Price Level Adjusted Mortgages providing for loans for 100% of the capital costs, either through a Ministerial guarantee or Mortgage Insurance.

Making every effort to implement the following changes to existing projects built under the current program:

a. For non-income-tested households, increase the lower end of market rent to market rent on a phased basis.

b. Change the rent scale for income-tested households to a graduated scale from 25 to 30% of income.

c. Allow for subsidy pooling across portfolios, with controls to ensure all projects are balanced with respect to income mix.

## RENT SUPPLEMENT
## Canada Mortgage and Housing Corporation

### OBJECTIVES

The objectives of this program are:

a. to provide an alternative to the regular public housing programs financed under Section 40 or Sections 43/44;

b. to provide accommodation that will most effectively integrate public housing occupants into a community;

c. to increase the housing stock available to low-income individuals, families and senior citizens by using private market accommodation; and

d. to reduce provincial demands on CMHC's capital budget funds and to provide the private sector with the means of competing in the public housing field.

### RESULTS/BENEFICIARIES

There are currently 32,634 Rent Supplement units under administration. More than one-half of these are in Ontario and almost one-quarter are in British Columbia. The other provinces and territories, with the exception of Nova Scotia, share the remainder of units.

In 1984, 931 new Rent Supplement units were committed, mainly in Ontario and Quebec, with a small amount of activity in British Columbia, New Brunswick and the Yukon. This represented 4% of total social housing activity.

### AUTHORITY

National Housing Act, Sections 44(1)(a) and 44(1)(b).

**RESOURCES** **($ millions)**

| | 83/84 | 84/85 | 85/86 | 86/87 | 87/88 |
|---|---|---|---|---|---|
| Grants, Contributions & Subsidies | 37.3 | 43.9 | 46.7 | 55.0 | 60.4 |
| | **1984** | | | | |
| Administration | 0.1 | | | | |
| Person-years | 3 | | | | |

**DESCRIPTION**

Under Section 44(1)(a) of the NHA, the Rent Supplement program provides for subsidy assistance to tenants living in units owned and operated by private landlords. It is designed as an alternative to the regular Section 44 public housing program, particularly in municipalities where the production of family public housing has encountered resistance. The most important difference between this program and other social housing programs is that the ownership of the housing remains with the private sector.

In general, provinces using the program stipulate that no more than 25% of the units in any designated project will receive Rent Supplement, except in senior citizen projects, in scattered family units and in projects of 80 units or fewer (in which up to 20 subsidized units are allowed). This restriction is intended to guarantee the integration of low-income households in both the project and neighbourhood.

As the active partner, the province enters into lease agreements with individual landlords that designate the units, specify the market rent and set the length of agreement. The province also supplies the tenants from local public housing waiting lists.

Rents are charged to these households according to a rent-to-income scale. This may be the federal graduated rental scale or a provincial scale, although federal subsidies are calculated using the scale generating the lowest subsidies. Subsidy contributions are shared 50/50 by federal and provincial governments. The maximum subsidy term is set at 35 years, although provincial agencies may negotiate shorter terms, usually three to five years, with provision for renewal.

Section 44(1)(b) operates in a similar fashion, but provides subsidies for tenants living in housing funded under a previous Non-Profit and Cooperative program prior to 1978. No new commitments are being made through these programs, but the agreements provide for continuing subsidies.

**OBSERVATIONS**

In 1978, along with introduction of the Section 56.1 Non-Profit and Cooperative Housing program, it was intended that increased use would be made of the private landlord rent supplement program. Take-up, however has been limited and unevenly distributed throughout the country. In large part, this is due to the requirement for 50/50 cost-sharing by the provinces. When compared with 100% federal subsidies for Section 56.1 and 75% federal subsidies for Section 40 Public Housing, this funding requirement has acted as a deterrent.

The private landlord rent supplement program is the most effectively targeted of the federal social housing programs. The average income of program clients in 1984 dollars was just under $9,000 a year. Subsidy costs under the program are also lowest to the federal government, averaging $2,622 per unit per year. This is because all subsidies are directed to those most in need, usually in low-cost existing stock, without the need for capital financing for costly new construction.

The private landlord rent supplement relies on the willingness of private landlords to participate in the program. The program works in areas with high vacancy rates because landlords can enter into Rent Supplement agreements to fill empty units. However, landlords are not likely to participate in the program if they can rent their unit on the market.

Examination of the housing problems of those with the greatest need shows that more than 400,000 renter households in urban areas and about 15,000 in rural areas currently live in dwellings which are suitable and adequate but pay an unreasonable proportion of their income to do so. This represents about 40% of the population most in need. These households are logical candidates for a rent supplement program because they do not have needs for new housing or for renovations.

The current design of the program is not totally suited to these needs because it requires that particular units be designated for rent supplement, and that needy households move to these units to be assisted. A change in the program would be required to provide rent supplement to allow tenants living in adequate units to remain where they are and to receive assistance to reduce their problem of housing affordability.

The Rent Supplement Program for private landlords has the advantage of using the private sector to provide accommodation and achieves income integration through controls on the proportion of units in a particular project receiving Rent Supplement assistance.

While provincial governments do not have independent rent supplement programs, five do have unilateral shelter allowance programs which are somewhat similar (British Columbia, Manitoba, Quebec, New Brunswick and Nova Scotia). With the exception of Manitoba, these programs are directed only to senior citizens. There are two principal differences between shelter allowances and rent supplements. First, rent supplements are tied to units, while shelter allowances are tied to households. This means that a shelter allowance is portable and is the most direct way of assisting those households living in adequate units but facing affordability problems. Second, shelter allowances are generally offered as an entitlement program, that is, anyone meeting specified criteria is served by the program. Rent supplements, on the other hand, are restricted through specifying a certain number of units to be subsidized.

## OPTIONS

### Status quo

There is relatively little use of the Rent Supplement program, despite the fact that it is well-targeted to those most in need and is a cost-effective way of providing social housing assistance. The main reason for this is the requirement for provincial participation, both in delivery and 50/50 cost-sharing.

### Program modification and increased use

A high proportion of households in need currently live in adequate dwellings but pay too high a proportion of their income for rent. In order to most appropriately assist

these households, consideration should be given to modifying the rent supplement program so that agreements could be entered into with the present landlords of such tenants. This would also entail specification of maximum rents to be subsidized so that only modest accommodation would be covered and the rental scale would be increased to a graduated scale from 25 to 30%, based on income and family size, consistent with recommendations for other social housing programs.

Rent supplements would be used more than low-income housing supply programs in areas with an adequate supply of rental accommodation, with a consequent lower cost to government.

**Replace rent supplement with a shelter allowance**

Shelter Allowances have been identified by many as a cost-effective and appropriate social housing response. While they are probably the most direct way of resolving problems of housing affordability, the costs are unknown and unpredictable, and are less subject to control than Rent Supplements which can be limited to a maximum number of units.

**OPTIONS**

The study team recommends to the Task Force that the government consider as a preferred alternative the modification of the Rent Supplement program and increase its use, as one component of an overall package of social housing initiatives. Modifications would include:

a. encouraging rent supplement agreements with landlords of tenants occupying adequate dwellings but facing affordability problems;

b. specifying maximum rent levels to ensure modest accommodation is subsidized;

c. increasing the rent scale in use for rent supplements to a graduated scale from 25 to 30%, based on income and family size.

In negotiating agreements with the provinces to cost-share the revised package of social housing programs, consideration could be given to allowing shelter allowance programs to be used in lieu of rent supplements, as long as adequate controls were in place to restrict program costs.

## PUBLIC HOUSING
## Canada Mortgage and Housing Corporation

**Note** This assessment deals with federal-provincial and provincially-owned public housing. Provincially-leased housing is reviewed in the Rent Supplement assessment.

### OBJECTIVE

The objectives of this program are:

a. to provide decent, safe and sanitary housing for individuals and families of low income, suitable to their identified needs and at rents they can afford;

b. to increase the housing stock available to low-income people; and

c. to provide accommodation which most effectively integrates public housing occupants into the community.

CMHC has added the following management objective: To achieve the production of public housing in the most efficient and effective manner, and at reasonable cost to the governments involved.

### BENEFICIARIES

There are currently 202,980 public housing units in 4,667 projects under administration. Close to one-half of these units are in Ontario, but the program has also been used in every other province and territory. Most units (165,173) are provincially-owned, with subsidies cost-shared equally by the federal and provincial governments. The remainder (37,807) are owned jointly by the federal and provincial governments with costs shared on a 75/25% basis.

In 1984, 1,270 new commitments were made for public housing, representing 6% of all social housing activity.

AUTHORITY

National Housing Act, Section 40 and Sections 43/44.

RESOURCES

| | ($ millions) | | | | |
|---|---|---|---|---|---|
| | **83/84** | **84/85** | **85/86** | **86/87** | **87/88** |
| Grants, Contributions & Subsidies | | | | | |
| Section 40 | 77.3 | 150.4 | 117.1 | 126.4 | 138.2 |
| Section 44 | 249.6 | 323.2 | 282.6 | 288.3 | 293.4 |
| Non-budgetary | | | | | |
| Section 40 | 71.5 | 68.0 | 49.4 | 57.4 | 66.2 |
| Section 43 | 12.3 | 5.7 | 3.8 | 2.0 | 0.7 |

| | **1984** |
|---|---|
| Administration | 0.1 |
| Asset Administration | 2.5 |
| Person-years | 56 |

DESCRIPTION

Section 40 Public Housing Program

Under Section 40 of the NHA, CMHC and a province may enter into an agreement for the construction or acquisition of a public housing project. Capital costs are shared 75/25 by the federal and provincial governments respectively. The province, in turn, may request that municipalities participate in its 25% share. Amortization of the costs is spread over a 50-year period.

Operating losses are also cost-shared on a 75/25 basis. The projects are managed by housing authorities appointed by the province with federal approval.

Rents charged to the occupants are based on the federal or a provincial rent-geared-to-income scale and generally equal 25% or less of the household's income. Federal subsidies are calculated according to the scale producing the higher revenues.

Section 43/44 Public Housing Program

Under Section 43 of the NHA, CMHC may make long-term loans to provinces, municipalities, or public housing agencies for the construction or acquisition of a public housing project. The loan cannot exceed 90% of the approved project capital costs and has an amortization period of 50 years.

The federal and provincial governments share the operating losses on a 50/50 basis under Section 44 of the NHA.

The projects are owned and operated by the province, a municipality or a public housing agency.

Rents charged to the occupants are based on the federal or provincial rent-to-income scale. Federal subsidies are calculated using the scale producing the greater revenues.

**OBSERVATIONS**

Two aspects of public housing require consideration. First is the stock of more than 200,000 units which is currently under administration and tied to 50-year subsidy agreements. Second is the level of new activity under the program and its potential as a viable social housing initiative.

The existing stock of units is very well targeted to those most in need. The average household income of public housing tenants in 1984 dollars was about $11,425.

The average subsidy costs per unit in 1984, including both federal and provincial shares, were $3,663 for Section 40 units and $3,264 for Section 43/44 units. The total subsidy bill expected in 1985/86 for public housing units is close to $400 million.

These subsidies extend for 50-year periods from the time of commitment, so they represent funds which are locked-in, with little flexibility for changing spending priorities.

**OPTIONS**

Several options for reducing these long-term expenditures are proposed for consideration by the Task Force. These include:

**Sale of the Public Housing stock.** This is an option which has been implemented in other countries (notably Great Britain). The stock could be sold to tenants or to the private market for redevelopment purposes.

Analysis of the potential for sale of the stock to tenants shows that virtually none of them, because of their low incomes, could afford to purchase and maintain their units. If the outstanding debt were totally written off, an increasing percentage could afford to buy, but others could not afford on-going operating costs. Writing off the debt would eliminate long-term subsidy commitments but would be a very expensive proposition, given the $3 billion federal share. Most of the stock (63%) is in high-rise buildings; such units are not as amenable to individual sales as low-rise or single detached units.

Selling the stock on the private market may have some potential for savings if sites could be redeveloped. However, the majority of public housing units (86%) are in good condition and do not warrant being demolished, yet their modest nature would make sales in most markets difficult. This option also would remove a stock of housing which is well targeted to low-income households, and thereby increase the outstanding need for social housing assistance.

**Increasing rent scales.** Public housing tenants generally pay 25% of their incomes for rent. It has been suggested, and in fact implemented in British Columbia, that rents be increased to 30% of income. While this may be an appropriate level for some households to pay, those with large families and very low incomes would have difficulty making this adjustment. A graduated scale from 25% to 30%, based on family size and income, could be preferable. This change has the potential of increasing public housing revenues, and thereby decreasing the federal subsidy cost. It should be noted, however, that not all of this saving would be realized if those with slightly higher incomes moved out and were replaced by households with lower incomes. In such a case, increased subsidy costs would result, but

targeting would be even further improved. This option is supported by some provinces, but would encounter resistance from others and from tenants.

**Administrative savings.** Provinces are seeking ways to reduce administrative costs, partly through reduced reporting requirements to the federal government and economy measures in on-going administration. Potential savings from such measures are small (estimated to be less than 1% of operating costs). Reduced reporting requirements also threaten the extent to which the federal government can be accountable for expenditures. Given the large amount of subsidy involved, it is critical that sufficient information be provided for federal monitoring and control.

Approximately 20% of public housing occupants are social assistance recipients. In this case, their income (including the amount they pay for rent) is cost-shared on a 50/50 basis through the Canada Assistance Plan (CAP). The public housing rents charged to social assistance recipients vary considerably throughout the country. In some provinces, they pay rents which are comparable to those paid in the private sector. In other cases, complicated formulae are used which result in much lower rents and, therefore, lower charges to social assistance budgets, and higher housing subsidy charges.

The latter means that housing budgets are used to reduce social assistance budgets of the provinces, and indirectly through CAP, of the federal government. In those projects where housing budgets are cost-shared on a 75/25 basis compared to the 50/50 cost-sharing arrangements of CAP, this also results in an unintended federal-provincial transfer. If market rents were paid for social assistance recipients by welfare agencies, this would reduce federal public housing subsidies with no impact on tenants. The impact would be felt by provinces, and to some extent federal CAP payments.

New public housing activity is occurring in only five provinces (the Atlantic and Saskatchewan) and in the territories. In all cases, these provinces strongly support retention of the program.

In other provinces, public housing activity was terminated in 1978 with the introduction of the Section 56.1 Non-Profit and Cooperative Housing program. During the 1970s, public housing activity had begun to drop off, as there were increasing social problems in large-scale projects and community resistance to public housing "ghettos".

Some critics suggest that it is the 100% low-income feature of public housing that created problems and that the solution is to serve a mix of income groups. Others argue that it is the size and concentration of public housing that causes problems and that community resistance can be avoided with appropriate project design, acceptable project size and improved project management.

Small-scale public housing is a cost-effective way of increasing the supply of housing for low-income households because all of the subsidy is targeted to the needy. This option has been supported by the Urban Development Institute, the Federation of Canadian Municipalities, the National Anti-Poverty Organization and others as one appropriate tool in a package of programs.

Should small-scale public housing be re-introduced, it could be delivered through municipal non-profit housing corporations and renamed to avoid community resistance on the basis of past prejudices.

The study team recommends to the Task Force that the government consider:

Reducing subsidies on the existing public housing stock by:

a. **Modifying the rent scale** Changing the rent-to-income scale to a graduated one ranging from 25% to 30% based on family size and income could impact the subsidy levels in two ways. If the overall tenant income level remained constant, it would result in reduced subsidy levels. If, on the other hand, the overall tenant income level were reduced (because the relatively higher-income tenants moved out to take accommodation on the market), it would require increased subsidy levels. In this latter case, targeting would be improved, however;

b. **Administrative savings** Provinces should be encouraged to seek administrative economies, particularly in maintenance and operating budgets, but not at the expense of federal accountability. Sufficient information to monitor and control subsidy budgets is essential.

c. **Increasing rents charged to social assistance recipients** Increasing rents for social assistance recipients would shift subsidies from housing to federal and provincial welfare budgets. Negotiations at the provincial level between housing and welfare agencies should be initiated to explore this option, but would need to ensure that rent increases would not be passed on to tenants.

Replacing new activity in the program with the proposed Community Housing Program. As one component of revised Social Housing strategy, the Community Housing program, in comparison with public housing would:

a. reduce federal capital requirements by relying on private sector capital;

b. reduce mortgage amortization periods from 50 years to 35 years;

c. ensure 100% rent-to-income housing is available in all parts of the country; and

d. increase the proportion of subsidies assumed by provincial governments.

## SPECIAL PURPOSE HOUSING
## Canada Mortgage and Housing Corporation

### OBJECTIVE

As a subset of the overall Non-profit and Cooperative Housing Program, the objective of this program is to provide appropriate accommodation to low- and moderate-income households with special care needs.

### BENEFICIARIES

The types of projects assisted through this program include senior citizens care facilities (such as nursing homes), homes for victims of family violence, the mentally and physically handicapped, emotionally disturbed children, reformed alcoholics and parolees. Since 1979, 14,468 units have been provided in all provinces, but not the territories, for special purpose housing.

### AUTHORITY

National Housing Act, Section 56.1.

### RESOURCES

Included in Section 56.1, Non-Profit and Cooperative Housing is an estimated 12% of that total (see program assessment on Non-Profit and Cooperative Housing).

### PROGRAM DESCRIPTION

As one component of Non-Profit and Cooperative Housing, public or private non-profit groups and cooperatives can provide special purpose housing in the form of self-contained units, hostel beds, care facilities or group homes.

Funding for the program is provided in the same way as for other Section 56.1 activity, with the maximum subsidy being equal to the difference between mortgage payments at the market rate of interest and those at a 2% interest rate. The main difference is that this subsidy is used to reduce mortgage repayments, while per diem contributions through provincial departments of health or social services are provided to cover other operating costs. These provincial per diems are cost-shared by the federal

government through the Canada Assistance Plan or Established Programs Financing (for health expenditures). In addition to provincial per diems, projects sometimes also receive funding through other federal departments, municipal grants and charitable donations.

Beneficiaries of this program need appropriate shelter, but also need social or health care support. Because they frequently provide for interim, or emergency shelter needs or service those with no or very low incomes, the maximum subsidy is almost always provided and is not usually based on the incomes of occupants.

**OBSERVATIONS**

The need for this type of program has escalated since provinces have moved to community-based facilities, rather than institutions, to care for those with special needs. What previously would have been health or social service costs to build and operate institutions have now created demands for housing dollars.

In the context of the overall budgets for most such facilities, the housing subsidy represents a relatively small portion. Highest costs are associated with salaries for staff and other support services which are funded through provincial per diems. However, the provision of subsidized mortgage repayment reduces total on-going operating costs (which are generally cost-shared 50/50) and shifts a greater proportion of the expenditures to the federal government. The Section 56.1 housing subsidy is 100% federally funded.

In 1984, the number of special purpose housing units represented 8% of the total number of social housing units provided throughout the country. However, this proportion varied considerably across provinces, as shown below:

| | Number of Special Purpose Housing Units 1979-1984 | Special Purpose Housing as a % of all Social Housing 1979-1984 |
|---|---|---|
| Newfoundland | 562 | 19 |
| Prince Edward Island | 283 | 38 |
| Nova Scotia | 696 | 16 |
| New Brunswick | 1,091 | 40 |
| Quebec | 2,239 | 6 |
| Ontario | 2,079 | 6 |
| Manitoba | 764 | 19 |
| Saskatchewan | 833 | 11 |
| Alberta | 760 | 7 |
| British Columbia | 5,161 | 29 |
| Yukon and NWT | 0 | 0 |
| Canada | 14,468 | 12 |

There is a definite need for special purpose housing and a role for government in providing capital and subsidy assistance for these projects. The only question is through what agency should subsidy funding be provided. Capital funding is not provided through health or social service budgets, only through housing programs.

In some cases, Special Purpose Housing is provided in the same or connected facility as units without health or social service support. Particularly for the elderly, this permits a "continuum of care" that reduces the necessity for people to move as their health deteriorates. It should also be noted that many individuals with varying disabilities are housed in regular Non-Profit and Cooperative Housing projects.

## OPTIONS

### Status quo

By making housing subsidies available for special purpose housing, governments have developed a dependence on housing subsidies for this purpose and an expectation that they will be provided. Associations and groups involved with these special needs, and the provinces, would support the status quo or an even greater emphasis on special purpose housing. The disadvantage is that as more housing dollars are provided for special purpose homes which are also funded through federal and provincial departments of health and

social services, fewer subsidies are available for low-income families and senior citizens who do not have alternative sources of shelter assistance.

**Limit the proportion of special purpose housing**

For Non-Profit and Cooperative Housing delivered directly by the federal government, CMHC has limited special purpose housing to 10% of the units provided. This limit has not been imposed on projects delivered by the provinces through Global Funding Agreements. Extension of the 10% limit would not be a major reduction in the overall proportion of special purpose housing assisted, but would have a major impact on some provinces, particularly those in the Altlantic Region.

**Provide direct loans or mortgage insurance with no subsidies**

Housing budgets are the only way to guarantee the provision of capital funding for special purpose housing. With this alternative, CMHC would continue to provide mortgage insurance, or could introduce a special guarantee, to ensure that 100% of the capital costs for special purpose housing are provided by private lenders (as is currently the case). Interest rates, however, would be at normal market rates, rather than 2%. Federal and provincial departments of health and social services would continue to pay for operating subsidies, but this would include the full cost of mortgage repayment rather than a subsidized rate.

This alternative would not prohibit special care facilities from being integrated with other social housing projects, but housing subsidies would not be provided for those units which are subsidized through provincial per diems. As well, low-income individuals with disabilities could continue to be housed in social housing projects or through rent supplements in the same fashion as other low-income households.

The study team recommends to the Task Force that the government consider limiting the proportion of special purpose housing to 10% of the social housing allocation in each province.

In addition, CMHC and Health and Welfare Canada should commence negotiations with the provinces to shift responsibility for subsidizing special purpose housing to health and social service budgets. Consistent with the proposed strategy for social housing, special purpose facilities could be integrated into Community Housing projects, but housing subsidies would be provided only for those units not receiving provincial health or social service per diems. In addition, low-income individuals with special needs would be housed in Community Housing or through Rent Supplement assistance in the same way as other low-income Canadians.

# URBAN NATIVE HOUSING PROGRAM
## Canada Mortgage and Housing Corporation

### OBJECTIVE

The objective of the program is to provide decent housing at affordable rents to Native people living in urban areas, through Native non-profit groups.

### RESULTS/BENEFICIARIES

From the inception of the Urban Native program in 1978, to 1984, 2,684 units have been provided. Close to one-half of these (1,360 units) were added in 1983 and 1984.

### AUTHORITY

National Housing Act, Section 56.1.

### RESOURCES

**($ million)**

| | **83/84** | **84/85** | **85/86** | **86/87** | **87/88** |
|---|---|---|---|---|---|
| Grants, Contributions & Subsidies | | | | | |
| Section 56.1 | 9.4 | 12.6 | 19.2 | 25.8 | 30.5 |
| Program Support | Included in Rural and Native Housing | | | | |
| Non-budgetary | | | | | |
| Program Support | Included in Rural and Native Housing | | | | |
| Section 59 | Included in Rural and Native Housing | | | | |

| | **1984** |
|---|---|
| Administration | |
| Section 56.1 | 0.4 |
| Program Support | Included in Non-Profit and Cooperative Housing |
| Person-Years | |
| Section 56.1 | 11 |
| Program Support | Included in Non-Profit and Cooperative Housing |

## DESCRIPTION

Using the Section 56.1 Private Non-Profit program, non-profit groups sponsored by Native organizations develop rental projects to house low-income Native households.

The projects are eligible for both the standard Section 56.1 subsidy, which is the difference between mortgage repayment at the market rate of interest and that at 2%, and additional assistance to allow all tenants to pay no more than 25% of their income for rent.

## OBSERVATIONS

The program is successfully serving low-income Native households by enabling 100% of the units to be occupied on a rent-to-income basis. The Section 56.1 subsidy, without the additional assistance, would necessitate projects with a mix of incomes, which is not feasible because of the very low incomes of most Native Canadians.

Projects have been relatively low cost and have avoided high-density concentration through the use of existing units and scattered or small-scale projects.

Delivery by Native groups allows for links to other Native support services, including Friendship Centres and employment opportunities.

Provincial governments generally do not accord any special priority to Native groups and would likely be unwilling to cost-share a program specifically directed to them.

## OPTIONS

### Eliminate the program

Natives living off reserve could be treated no differently from other Canadians, assisted through social housing programs available generally for low-income households.

### No change

The program provides affordable housing for low-income Urban Natives and enables non-profit Native groups to play a key role in the acquisition and management of the units.

**Incorporate into a new Community Housing Program**

The Urban Native housing program could be integrated into a proposed revised social housing program which would provide the same type of assistance. Continuation of a special allocation for Urban Native Housing would ensure that these groups could retain a role in delivery. If the provinces refused to contribute to housing that is specifically targeted to Natives, the federal government would pay 100% of those costs, and reduce the overall number of social housing units.

The study team recommends to the Task Force that the government consider, as one component of a revised social housing strategy, to continue making a special allocation to the Urban Native program but that the program be converted into the proposed Community Housing Program.

## RESIDENTIAL REHABILITATION ASSISTANCE PROGRAM (RRAP)
## Canada Mortgage and Housing Corporation

### OBJECTIVE

The objective of the program is to assist in the repair and improvement of existing substandard housing and to promote its subsequent maintenance. Specific sub-objectives are:

a. to provide assistance to residents living in substandard housing on the basis of need;

b. to improve substandard housing to an agreed level of health and safety;

c. to ensure that the quality of repair and improvement substantially extends the useful life of each housing unit; and

d. to promote an acceptable level of maintenance of the existing housing stock.

### RESULTS/BENEFICIARIES

Since 1974, when the program was introduced, 82,252 homeowners and 23,545 rental projects (involving 72,218 units and 4,581 hostel beds) in urban areas have received RRAP assistance. In rural areas, the program has assisted 106,963 homeowners and rental projects. On Indian reserves, 8,875 units have received RRAP. Non-profit RRAP has assisted 23,707 units or hostel beds.

In 1984, 11,527 urban homeowners, 8,729 rental units, 17,947 rural units, 2,305 on-reserve units and 1,424 non-profit units received RRAP assistance.

### AUTHORITY

National Housing Act, Section 34.1

RESOURCES ($ millions)

| | 83/84 | 84/85 | 85/86 | 86/87 | 87/88 |
|---|---|---|---|---|---|
| Grants, Contributions & Subsidies | 164.5 | 171.1 | 140.1 | 128.5 | 134.9 |
| Agency Fees | 16.2 | 15.1 | 11.4 | 10.9 | 11.5 |
| Non-budgetary (net of forgiveness) | 23.6 | 31.7 | 28.4 | 34.1 | 39.4 |

| | 1984 |
|---|---|
| Administration | 7.1 |
| Asset administration | 2.6 |
| Person-years | 231 |

**DESCRIPTION**

There are five distinct sub-components of the program:

a. Urban Homeowner RRAP;

b. Rental RRAP;

c. Rural RRAP;

d. DIAND RRAP; and

e. Non-Profit RRAP.

Each of these sub-components operates in roughly the same way, although each is targeted to a different client group and there are some variations in the amount of assistance provided.

The program has been actively used in all provinces and territories. In some instances, provincial programs are used in conjunction with RRAP to provide deeper levels of assistance or to assist specific target groups with the payment of their repayable loans.

In urban areas, a prerequisite to the operation of the program is that the municipality or province in which the property is located must have adopted Maintenance and Occupancy (M&O) standards acceptable to CMHC, preferably in the form of a municipal bylaw. The bylaws are intended to assist in preventing rehabilitated properties from falling back into disrepair.

RRAP is delivered by agents, including municipalities, provincial housing corporations, non-profit associations, Indian bands or Native associations and private agencies. Delivery agents receive a fee of up to $400 in urban areas and $650 in rural areas for each unit.

**Table 1** **Maximum Loan and Forgiveness Amounts**

| | Maximum Loan ($) | | Maximum Forgiveness ($) | |
|---|---|---|---|---|
| | **Rehab Work** | **Rehab & Disabled Work** | **Rehab Work** | **Rehab & Disabled Work** |
| Urban Homeowner | 10,000 | 13,000 | 5,000 | 6,500 |
| Rental | | | | |
| Self-contained | 10,000 | 13,000 | 3,500 | 5,000 |
| Hostel Beds (first three) | 4,000 | 4,000 | 1,750 | 2,250 |
| Each additional | 4,000 | 4,000 | 2,500 | 3,000 |
| Rural Homeowner | | | | |
| Southern Areas | 25,000 | 28,000 | 5,000 | 6,500 |
| Northern Areas | 25,000 | 28,000 | 6,250 | 7,750 |
| Far North | 25,000 | 28,000 | 8,250 | 9,750 |
| Non-Profit | | | | |
| Self-contained | | | 5,000 | 6,500 |
| Hostel Beds (first three) | | | 1,750 | 2,250 |
| Each additional | | | 2,500 | 3,000 |

**Urban Homeowner RRAP**

RRAP offers loans directly from CMHC to homeowners living in substandard dwellings in designated areas to undertake necessary repairs to their properties. A portion of the loan is forgivable and does not have to be repaid. The forgiveness is "earned" over a five-year period by the homeowner continuing to own and occupy the dwelling.

maximum forgiveness is available to homeowners with an adjusted family income of $13,000 or less. Forgiveness decreases to zero at an income of $23,000. Maximum loan and forgiveness amounts are shown in Table 1.

To qualify for the program, a dwelling must be deficient in one of the following five categories: structural, electrical, heating, plumbing or fire safety. In addition, dwellings requiring changes to make them accessible for the disabled may qualify. In this case, additional loan amounts and levels of forgiveness are available.

Homeowners are required by the program to undertake all repairs necessary to bring their dwellings up to specified standards. Any extra loan and forgiveness amounts may be used for the repair or improvement of "optional" items.

**Rental RRAP**

Through this program, loans are offered to landlords in designated areas to repair substandard rental units. As with the homeowner program, a portion of the loan is forgivable, but the amount of forgiveness is not related to income. Landlords are required to contribute their own equity equal to the amount of forgiveness they receive. For the most part, loans for rental RRAP are obtained through the private sector, although direct loans are available as a last resort.

Landlords are required to enter into rental agreements to restrict rent increases over the five-year period in which forgiveness is earned. Generally, increases are restricted to the amount necessary to cover rehabilitation costs incurred by the landlord. Maximum loan amounts and maximum forgiveness levels are shown in Table 1.

**Rural RRAP**

RRAP is available as a component of the Rural and Native Housing Program to allow rehabilitation by homeowners and landlords in rural areas and communities of less than 5,000 population, with preference given to communities of less than 2,500 population. Rural RRAP is universally available rather than being restricted to designated areas.

Maximum loan amounts and forgiveness levels are higher in rural areas and vary by location, reflecting the higher costs of labour and materials in remote communities. These amounts are shown in Table 1.

**On-Reserve RRAP**

On-reserve RRAP operates on the same terms and conditions as Rural RRAP, but is restricted to designated Indian Reserves. On reserves, the program is sometimes used in conjunction with front-end grants (averaging $6,000) provided by Indian and Northern Affairs Canada (INAC). Maximum loan amounts and forgiveness levels are the same as those shown for Rural RRAP.

**Non-Profit RRAP**

This program is used in conjunction with the Section 56.1 Non-Profit and Cooperative Housing Program to assist non-profit and cooperative groups to renovate existing substandard housing. Maximum forgiveness levels are shown in Table 1.

**OBSERVATIONS**

The Homeowner RRAP program, both urban and rural, is well targeted to low and moderate-income households. The average income of homeowners served through the program is $15,000 (in 1984 dollars), which is just over one-half the average income of all homeowners living in dwellings needing major repair ($28,000).

Despite effective targeting, however, many of the homeowners served through the program, especially in urban areas, have accumulated equity in their dwellings. It is estimated that one-half of the homeowners in the program could have financed their repairs through accumulated equity without subsidy and without incurring an excessive burden of debt.

The Rental RRAP program is not as well targeted as Homeowner RRAP, although it also serves low-and moderate-income households. The average tenant income (in 1984 dollars) was $17,240. This is partly because program funds are directed to landlords and involve no means test of the tenants who are affected. As well, although there are

rental agreements designed to control rent increases, they do not ensure that rents are affordable to low and moderate income households.

A recent evaluation showed RRAP has had a positive influence on the housing conditions of program participants. However, not all substandard items are being repaired. Although program guidelines call for the complete repair of essential substandard items before non-essential repairs can be made, delivery agents tend to relax these guidelines when homeowners are contributing some of their own funds.

RRAP could be a cost-effective alternative to social housing programs, particularly if it is targeted to those same households who would create a demand for social housing if they were to move. The program is a far less costly form of assistance that allows low-income households to improve their housing conditions while remaining in their own dwellings.

The current urban RRAP program does not allow for full program targeting to those most in need because it is available only in designated areas. A universal program, with restrictions based on housing conditions and income rather than geographic location, would be more equitable and would improve targeting. Homeowner RRAP can also not be targeted to those most in need because of the requirement to do complete repairs, and because of the limits on loan forgiveness.

For low-income households living in inadequate dwellings who also have problems of affordability RRAP is an insufficient response. More long-term social housing assistance is required.

It should be noted that there are needs for renovation extending across all income groups. It is not clear that these households require a subsidy, but they may need information, access to financing, or advice on contractors to encourage them to undertake needed repairs to their dwellings.

Renovation is a labour-intensive activity and RRAP has contributed to the generation of employment. In addition, Rental RRAP leverages $2.58 in private funds for each $1.00 of public expenditure. Homeowner RRAP leverages an average of only $.25 in personal expenditures for each public dollar spent, due in part to the low incomes of households served.

When RRAP is combined with provincial renovation programs, lower-income households are served. In the case of Quebec, which provides the highest level of renovation subsidies, through provincial and municipal programs, there is also evidence of more complete repairs being undertaken. RRAP would be improved with provincial contributions, but guidelines would be required to ensure adherence to federal standards if federal objectives of targeting, complete repairs and on-going maintenance are to be met.

Units renovated with Non-Profit RRAP are also subsidized through Section 56.1, which provides an interest rate reduction to 2% on eligible capital costs. Included in these eligible capital costs is the amount of the RRAP forgiveness. Essentially, this provides a double subsidy, as illustrated below:

**Calculation of Section 56.1 Subsidy ($)**

| | Including RRAP Forgiveness | Without Including RRAP Forgiveness |
|---|---|---|
| Acquisition Cost | 40,000 | 40,000 |
| Rehabilitation Cost (RRAP forgiveness of $5,000) | 20,000 | 15,000 |
| **Total Cost** | **60,000** | **55,000** |
| Annual Section 56.1 Subsidy* | 4,940 | 4,530 |
| Estimated Present Value of Section 56.1 Subsidy (over 35 years) | 40,380 | 37,000 |
| **Total Subsidy, including RRAP** | **45,320** | **41,530** |

* Estimated at the difference between a 12% and 2% interest rate.

It is cost-effective to encourage the acquisition and renovation of existing housing by non-profit and cooperative groups. However, the Non-Profit RRAP subsidy does not encourage any more renovation than could otherwise be done through the Section 56.1 program. It does provide a greater subsidy and so allows for a somewhat greater proportion of

low-income households to be served. This impact is relatively minor, however, when viewed in the total context of the Section 56.1 subsidy.

**OPTIONS**

The study team recommends to the Task Force that the government consider incorporating RRAP into an overall strategy for social housing assistance, with the following modifications:

a. Target full Homeowner RRAP assistance to those households in substandard housing without affordability problems but who could not afford alternative suitable and adequate accommodation;

b. Institute rent limits to provide Rental RRAP subsidies only to those landlords providing rental accommodation at below average market rents in a particular community;

c. Remove the requirement for designated areas in urban centres to allow the most needy households to be served regardless of location;

d. Restrict the RRAP subsidy to cover only substandard essential items, with the costs of optional items being assumed by homeowners. In future, consideration should be given to increasing the amount of loan forgiveness provided, if it is found to be insufficient to allow the most needy households to repair essential items;

e. Eliminate the Non-Profit RRAP program, allowing non-profit or cooperative groups to participate in the Rental RRAP Program without the requirement for matching equity contributions. Alternatively, non-profit and cooperative groups could be permitted to acquire and renovate existing housing through the proposed Community Housing Program; and

f. Consolidate RRAP on reserves with the INAC renovation program, but retain RRAP standards to ensure that funds are used to correct substandard items. Administration of the enriched INAC renovation program would be carried out by INAC,

with delivery by Indian bands. Technical support would be made available from CMHC on a fee-for-service basis as required.

The study team also recommends to the Task Force that the government consider:

- Encouraging provincial cost-sharing of RRAP so that increased levels of assistance could be provided over time while maintaining or decreasing federal expenditures.

- Exploring alternative options to encourage moderate and middle income households to undertake rehabilitation. Such options include the provision of information, inspections, access to financing and assistance with contractors, without direct subsidy assistance; mortgage insurance for renovation loans; and reverse mortgages.

## RURAL AND NATIVE HOUSING PROGRAM (RNH)
## Canada Mortgage and Housing Corporation

**Note** This assessment deals with RNH Home Ownership and Rental. Other components of the RNH program, the Rural Residential Rehabilitation Assistance Program, the Emergency Repair Program and Urban Native Housing, are dealt with in separate assessments.

### OBJECTIVE

The objective of this program is to assist disadvantaged clients by providing adequate housing for Native and non-Native persons living in rural areas and small communities.

### RESULTS/BENEFICIARIES

Approximately 15,000 units have been provided since the program was initiated in 1974, of which an estimated one-quarter are occupied by Native households. No activity has occurred in Quebec because of the refusal of the province to enter into a cost-sharing agreement, and there has been no activity in Prince Edward Island (P.E.I.) since 1977.

In 1984, 1,474 RNH units were provided in all provinces and territories except P.E.I., Quebec, British Columbia and the Yukon. This represented 7% of all social housing activity in 1984.

### AUTHORITY

Until 1985, the program was funded through Section 40 of the National Housing Act (NHA). Currently, authority for the program is through Sections 34.15, 55 or 40 of the NHA.

**RESOURCES ($ millions)**

| | 83/84 | 84/85 | 85/86 | 86/87 | 87/88 |
|---|---|---|---|---|---|
| Grants, Contributions & Subsidies | | | | | |
| Section 40 | 47.8 | 77.7 | 58.7 | 69.3 | 76.3 |
| Program Support | 4.5 | 4.6 | 4.9 | 5.1 | 8.2 |
| Non-budgetary | | | | | |
| Section 40 | 82.4 | 61.4 | 70.4 | 103.8 | 116.3 |
| Program Support | 0.1 | 0.4 | 1.0 | 0.8 | 0.8 |
| Section 59 | 6.3 | 7.5 | 15.0 | 17.8 | 18.9 |

| | 1984 |
|---|---|
| Administration | |
| Section 40 | 0.1 |
| Program Support | Included in Non-profit and Cooperative Housing. |
| Asset Administration | 2.5 |
| Person-Years | |
| Section 40 | 57 |
| Program Support | Included in Non-profit and Cooperative Housing |

**DESCRIPTION**

The Rural and Native Housing Program has, in the past, been funded through Section 40 on a federal/provincial basis. In 1984, approval was given for a unilateral federal RNH program, to be funded through Sections 55 or 34.15. In 1985, both arrangements will be used, depending on the willingness of a province to cost-share the program.

This change was put in place to respond to previous concerns about the program, notably that several provinces were becoming increasingly inactive because of their reluctance to contribute financially or their general disinterest in the program. The concern was that, although this was a largely federally-funded program, the federal government was incapable of assuring equal access across the country because of the requirement for provincial participation.

**Section 40**

Under Section 40 of the NHA and complementary provincial legislation, the federal and provincial governments jointly provide for the construction of new units, or acquisition and rehabilitation of existing housing units for sale or rent to qualified RNH clients. Both capital and subsidy costs are shared on a 75% federal, 25% provincial basis. Either the federal or provincial partner is responsible for delivery and administration of the program within a province.

The program is primarily a home ownership program with some rental for clients for whom home ownership is considered inappropriate.

Clients pay 25% of their income towards the monthly mortgage amount, including principal, interest and taxes, or monthly rental with the remainder being subsidized. For home ownership units, clients are responsible for payment of their own utility and maintenance costs, while in rental units these are included in the subsidized rent. Starting in 1986, it is anticipated that homeowner clients will pay 30% of their income towards the monthly mortgage with heating costs also being subsidized. Rental clients will continue to pay 25% of their income towards rental payments.

**Section 55**

Under Section 55, the federal government provides 100% of the capital and subsidy funding for a federal unilateral RNH program, with delivery by either CMHC or the province.

Section 55 RNH is a development process similar to that of Section 40 RNH, with CMHC or its agent acting in the same manner as a residential developer. Title to land for building purposes is acquired in the name of CMHC and subsequently sold to pre-identified RNH clients. Security is a first mortgage between the client and CMHC, amortized over 25 years (or 15 years in northern remote areas).

Subsidies to clients are provided on the same basis as for Section 40, except that funding for these is 100% federal.

**Section 34.15**

The principal difference between this and the Section 55 program is that funding is provided through a lending, rather than development, technique. With this process, CMHC makes a loan to an agent, a builder or a homeowner to construct new units or acquire good quality existing units for sale to qualified RNH clients. Section 34.15 funds cannot be used to rehabilitate existing units. Title to land(s) used for Section 34.15 funded RNH units may rest in the name of the RNH homeowner building a unit for himself, or in the name of an agent or a builder constructing RNH units for qualified program clients. Title is ultimately transfered to the RNH client at the time of occupancy, with a mortgage between CMHC and the client as security. Subsidy arrangements to clients are the same as for Section 55.

A series of federal-provincial negotiations is underway to work out funding and delivery arrangements for the RNH program. A range of different combinations is being discussed, including:

a. federal unilateral funding and delivery;

b. federal unilateral funding with provincial delivery; and

c. cost-shared funding with delivery by either the federal or provincial government, or both.

Where federal unilateral funding is provided with provincial delivery, the federal government assumes 100% of the capital and subsidy costs, while the province pays for program delivery and administration. It is intended in such situations that the province would use its 25% "savings" for other social housing purposes.

**OBSERVATIONS**

The RNH program is intended to respond to the needs of Native Canadians and other low-income households in rural areas. Problems of housing quality and supply continue to be more serious in rural areas than in urban. Close to one-half of the housing problems experienced in rural areas are not pure affordability problems, but require some form of supply response.

Native Canadians experience the most deplorable housing conditions in the country. More than one-half of the Native population has some type of housing problem, and the majority of these households are in the lowest-income category.

Households served through the RNH program have very low incomes (the average in 1984 was just over $11,000). Nevertheless the concern has been expressed that the program does not reach the lowest-income population because, unlike public housing, occupants are required to pay their own utility costs.

Recent negotiations with the provinces assessed the interest of the provinces in increasing the payment-to-income scale from 25% to 30%, with utility costs included in the payment. All provinces, except Newfoundland, rejected the idea, primarily because of its anticipated community resistance.

The program has a high rate of arrears, about 20% nationally. This is partly due to the affordability problems created through payment of utility costs, but is also because of other responsibilities, including maintenance, imposed through the provision of home ownership to very low-income households. Providing subsidized home ownership also creates problems of community backlash in some areas. In response to these concerns, some provinces have expressed their preference for a rental, or at least a lease-purchase program, rather than home ownership (Saskatchewan, Manitoba, Nova Scotia, P.E.I., and Quebec).

The program operates in a variety of different settings, and with different types of clients. There may be opportunities in some situations to reduce long-term program costs through the use of front-end grants, increased participation of clients in construction of their dwellings, or provision of mobile homes or manufactured housing. It should be recognized, however, that for some client groups (the elderly, disabled, women-led families) and in some locations, these solutions would not be appropriate.

The funding and delivery arrangements proposed, which would provide for full federal funding of program costs and provincial responsibility for delivery, have two potential flaws.

First, provinces in delivering the program have no incentive to reduce program costs and every incentive to reduce administrative costs. In those situations where higher administrative costs would be incurred to restrict or control program costs (for example, the collection of arrears, determination of the most cost-effective program response - new housing or acquisition/renovation, progress inspections during construction, etc.), the provinces may take minimal action so that they keep administrative costs low.

Second, although provinces have agreed to redirect the funding they would have spent on their 25% share of RNH to other social housing purposes, there is no control over this or sanction if it does not occur. Provinces may redirect these "savings" away from housing altogether.

## OPTIONS

### Status Quo

Major problems with the existing program include:

a. the inability of some clients to take on the financial responsibilities and on-going repairs and maintenance associated with home ownership;

b. community resistance to low-income households being "given" a new home;

c. difficulties in administering long-term subsidy agreements, particularly in northern, remote communities.

### Replace the program with the proposed Community Housing Program with cost-shared rental accommodation

A revised social housing program for urban areas is proposed to the Task Force by the study team. This program could also be made available in rural areas and small towns. In several provinces now, some form of public housing is provided in rural and small communities. This option would provide a similar rental program, with a 100% rent-to-income provision.

This alternative would respond to the first two concerns identified above for the status quo. It would not likely be a feasible option in remote areas where there are administrative difficulties with rental housing.

**Introduce new program instruments including housing kits, mobile homes and other forms of manufactured housing.**

Some provinces have experimented with the provision of housing "kits" that contain the basic materials required to construct a home, with program clients contributing their own labour to assemble them. For those unable to participate in construction, manufactured housing, including mobile homes, could be provided.

This option would involve up-front grants to purchase housing kits and a rent-to-purchase option for mobile homes or other manufactured housing. It would require some changes to the National Building Code to reduce stringent building requirements.

In remote areas, this option would reduce the requirements for on-going subsidy administration. In rural areas and small communities, there are several unknowns about such a program - the degree of take-up, the potential for re-sale with capital gains, and the amount of community resistance. A demonstration program to assess the applicability of such a program to rural areas may be advisable.

The study team recommends to the Task Force that the government consider developing two separate strategies - one for rural areas and small communities, and the other for remote areas. Ultimately, the strategy in rural areas would involve:

a. use of the Residential Rehabilitation Assistance Program to rehabilitate dwellings wherever feasible;

b. the use of housing kits funded through front-end grants and with client labour to assemble them;

c. application of the proposed Community Housing Program to provide rental accommodation where clients are unable to participate in construction and on-going maintenance; and

d. the Emergency Repair Program to address short-term, critical needs for repair.

In remote areas the same package of programs would be offered, with the exception of the Community Housing Program which would be replaced by a lease-purchase program providing manufactured housing, including mobile homes, to those not qualifying for housing kits.

Because the use of housing kits is a relatively new phenomenon, it is proposed that a demonstration program be put in place to assess their feasibility. In the interim, the RNH Home Ownership program would continue to be used in rural areas for those able to assume financial and maintenance responsibilities. In remote areas, it is proposed that the Home Ownership program be replaced by the lease-purchase program for manufactured housing.

Consistent with the revised social housing strategy, the federal government should seek cost-sharing from the provinces for the preferred alternative. In those cases where provinces share equally in the costs of the program, they could have the lead role in delivery. Where provinces do not contribute financially, the federal government should assume direct delivery responsibilities.

EMERGENCY REPAIR PROGRAM (ERP)
Canada Mortgage and Housing Corporation

## OBJECTIVE

The objective of the program is to assist in the repair of seriously substandard existing housing. More specifically, it seeks to:

a. provide assistance to owners/occupiers of seriously substandard existing housing on the basis of lowest income, largest family, worst-housed first; and

b. improve substandard housing to an acceptable level of health and safety until such time as replacement housing can be provided.

## RESULTS/BENEFICIARIES

Since the program was initiated in the early 1970s, close to 16,000 units have received Emergency Repair funding. Beneficiaries are distributed throughout the country, although in recent years New Brunswick and Prince Edward Island have had virtually no activity.

In 1984, 1,961 housing units were repaired with ERP.

## AUTHORITY

National Housing Act, Section 34.121

## RESOURCES ($ millions)

| | 83/84 | 84/85 | 85/86 | 86/87 | 87/88 |
|---|---|---|---|---|---|
| Grants, Contributions & Subsidies | 2.3 | 3.0 | 3.0 | 3.2 | 3.3 |

| | 1984 |
|---|---|
| Administration | 0.1 |
| Person-years | 2 |

## DESCRIPTION

The Emergency Repair Program, originally known as the Winter Warmth Program, is designed to do urgent repairs to severely substandard housing to provide warmer, safer accommodation until better housing can be found. Priority is given to Native families, including status Indians, non-status Indians, Metis and Inuit.

A one-time, non-repayable contribution is available to eligible applicants. The maximum contribution depends upon the zone in which the dwelling is located, to reflect the higher construction costs associated with rural and remote areas. In Zone 1, which is the southern section of most provinces, the maximum contribution is $1,500. In Zone 2, which is the northern section of most provinces, the maximum contribution is $2,500. In Zone 3, which is the Yukon, Northwest Territories, Labrador and far northern Quebec, the maximum contribution available is $3,800.

ERP is delivered primarily through local delivery agents, generally provincial Native associations, who are paid for this service.

## OBSERVATIONS

Emergency Repair clients are those whose properties are too substandard to be fully repaired through a program such as RRAP. In the long-term, these clients have a need for new housing. However, for a variety of reasons, including restrictions on the number of subsidized new housing units available, the inability or unwillingness of clients to take on the financial responsibilities of a new house or the reluctance of clients to move, this long-term solution may not be feasible. In the short-term, urgent repair needs are met through the program.

ERP is open to clients of all origins, although it is almost exclusively directed to Natives. This is mainly due to the limited funds available and the urgent needs faced by Native households.

Some provinces offer similar programs, but none of these gives priority to Native Canadians.

Controls on the program have been very poor in the past, but are being improved to link funding to specific, identified clients.

## OPTIONS

### Retain the program for Native households

This is a program with limited funds but meeting critical needs of a group not served through other programs. This option would involve retention of the program for Native households, with the provinces being encouraged to provide similar assistance to other low-income households.

### Incorporate the program into a fully cost-shared Rural and Native Housing program

ERP is one component of the Rural and Native Housing Program. It can be used as one option within that program to meet critical needs. If cost-sharing of the RNH Program is reinstated, ERP could be included on the same basis. It would then be made available to both Native and non-Native households with critical needs.

The study team recommends to the Task Force that the government consider incorporating ERP into a revised RNH program with funding to be cost-shared by the provinces.

## ON-RESERVE HOUSING PROGRAM
## Canada Mortgage and Housing Corporation

**Note** Indian and Northern Affairs Canada (INAC), and Canada Mortgage and Housing Corporation (CMHC), provide housing assistance to Indians living on reserve. The INAC programs cost about $102 million and the CMHC programs about $88 million in 1984-85. This paper assesses the CMHC housing programs available on reserves, with the exception of On-Reserve RRAP which is included in the assessment on the Residential Rehabilitation Assistance Program.

**OBJECTIVE**

To provide modest, affordable housing appropriate to the needs of low-and moderate-income Indian families and individuals living on reserves, through Indian Band Councils.

**RESULTS/BENEFICIARIES**

About 4,100 on-reserve housing units were built between 1978 and 1984 through the Section 56.1 program. Another 1,200 units will be built in 1985. Since 1962, a total of 1,280 units have received direct loans through Section 59. In 1984, direct loans were provided for 29 individual homeowners and 122 Section 56.1 units.

**AUTHORITY**

National Housing Act, Part 1, Section 56.1, Section 59 and Section 37.1.

**RESOURCES (\$ millions)**

| | 83/84 | 84/85 | 85/86 | 86/87 | 87/88 |
|---|---|---|---|---|---|
| Grants, contributions & Subsidies | | | | | |
| Section 56.1 | 18.1 | 20.9 | 28.3 | 35.4 | 39.3 |
| Program Support | Included in Rural and Native Housing | | | | |
| Non-Budgetary | | | | | |
| Program Support | Included in Rural and Native Housing | | | | |
| Section 59 | Included in Rural and Native Housing | | | | |

| | 1984 |
|---|---|
| Administration (S.56.1) | 0.5 |
| Person-Years (S.56.1) | 12 |

**DESCRIPTION**

The program was introduced in 1978 in response to arguments that front-end grants provided under INAC housing programs were insufficient to permit adequate housing to be built on reserves. Since housing was not a treaty right, it was considered that recipients of housing assistance on reserves should pay at least according to their ability.

Accordingly, Part 1 and Section 56.1 of the NHA were changed to allow private loans to be used on reserves and to include Band Councils with non-profit and cooperative groups as eligible recipients for interest write-down contributions.

The on-reserve component of the CMHC Section 56.1 social housing program operates essentially the same as that component not specifically targeted to Indians. Private loans of up to 100% of project costs are provided at market interest rates. Annual project operating subsidies are then given, equal to a write-down of the interest rate from market levels to 2%.

The Section 56.1 assistance is generally combined with INAC funds which are used as equity by the Bands for their housing projects. These funds range from $19,000 to $50,000 and are in the form of front-end grants. Almost all occupants pay rent according to income rather than paying low end of market rent, which is necessary because of the low average income of on-reserve households.

In addition to Part 1 and Section 56.1, direct loans through Section 59 are available on reserves. These provide funds in the event that private lenders are unwilling to lend, either for Section 56.1 projects or for unsubsidized, individual home ownership.

To develop proposals for Section 56.1 projects, loans under Section 37.1, Proposal Development Funding, are available to Bands. If the project is abandonned after a project development loan has been made, the loan may be forgiven in certain circumstances.

Project proposals are reviewed and approved by CMHC, taking into account cost-effectiveness and INAC's priorities for Bands.

**OBSERVATIONS**

There appears to be administrative overlap in having both INAC and CMHC providing housing subsidies to the same target group. Consolidation of the subsidy at INAC would recognize the responsibility of that agency for status Indians.

Inequality of access to federal housing funds among reserves is reported to have resulted because the more sophisticated reserves have made use of both INAC and CMHC assistance, while others receive only INAC front-end grants.

One of the goals of the federal Indian programs is to encourage self-reliance for Indians on reserves. Arrangements of the current program, on the one hand, create difficulties in achieving this goal because of the complex paperwork and delivery process associated with the CMHC Section 56.1 program. On the other hand, this program is based on mortgage loans, with monthly repayments, giving Indians the same responsibilities as most other Canadians in paying for their housing.

INAC is proposing a new block funding approach for Indian Bands, which would give Bands control over funds provided to them for all purposes, including housing. A single, consolidated subsidy for On-Reserve Housing would be consistent with this proposed devolution.

While there may be merit in having programs offered on reserves consistent with those off reserve, the proposed strategy for social housing involves increased financial participation from the provinces, who are generally unwilling to cost-share on-reserve programs. Although INAC's contribution to on-reserve housing could replace the provincial share, this may be inconsistent with the evolving government approach to Indian funding.

Although INAC and individual Bands do not necessarily have the technical resources and experience to deliver and manage housing programs, the required expertise could be obtained from CMHC on a contractual basis.

## OPTIONS

- Continue to use the CMHC Section 56.1 on-reserve housing program along with the INAC front-end grants.

- Transfer full responsibility for on-reserve housing subsidy programs to INAC. While consolidation of housing subsidies at INAC seems appropriate, unless CMHC continued to provide mortgage insurance, it would be difficult to attract private loan funds on reserve.

- Transfer full responsibility for all on-reserve housing programs to CMHC. Because of the increasing importance of Indian self-government, it seems necessary for INAC to retain responsibility for on-reserve programs.

The study team recommends to the Task Force that the government consider transferring full responsibility for on-reserve housing subsidy programs to INAC. In order to encourage the continuation of repayable loans, rather than simply front-end funding, CMHC should continue to make available unsubsidized direct or insured loans on reserves. INAC or individual Bands could contract with CMHC to obtain any required technical expertise.

# 4. HOUSING MARKETS

## INTRODUCTION

In the area of housing and mortgage markets, the study team reviewed a number of Canada Mortgage and Housing Corporation (CMHC) programs whose purpose is primarily to facilitate the workings of the private market. By far, the largest is the Mortgage Loan Insurance Program, though several significant market stimulation programs which have been phased out were also reviewed. In addition, a number of major housing-related tax measures were examined. Finally, the study team found it necessary to analyze some market issues which are not tied to a particular program. These include the problems of rental construction in Canada, the use of the housing sector to stimulate economic growth and the potential usefulness of several new types of mortgage instruments.

## GENERAL CONSIDERATIONS

The study team's general conclusions in the housing markets area are discussed in this section. The specific recommendations follow later.

### Home Ownership

There are few who would argue that the home ownership market requires major government intervention at present. Some substantial benefits already accrue to homeowners and new home buyers through existing programs. The Mortgage Loan Insurance program reduces risks to lenders and thus, allows households to purchase homes with relatively small down payments, and direct loans are available from CMHC for those who are not serviced by private lenders. The non-taxation of capital gains on principal residences represents a major benefit to homeowners.

It is recognized that young households attempting to enter the housing market often have difficulty in saving a down payment and making monthly payments in the early years of the mortgage. Longer-term and new types of mortgages might help by lowering payments somewhat in the early years and by allowing more flexibility in renewal dates and terms. Previous programs designed to help young households purchase their first home, including the Assisted

Home Ownership Program (AHOP), the Canadian Home Ownership Stimulation Program (CHOSP) and the Registered Home Ownership Savings Plan (RHOSP), have now been phased out. They were expensive to government and, to some degree, AHOP encouraged people to buy homes before they were really capable of handling the financial burden. No new initiatives are proposed in this area with the exception of the examination of some new types of mortgage instruments.

**Rental Housing**

New rental housing is not being constructed at the required rate in a number of urban centres. The gap between market rents (what the market will support) and economic rents (the rents which would be required to cover all costs and generate a reasonable profit) is simply too large. Many previous rental developers have abandoned the field. The rental market situation is attributed to a complex of factors - rent controls, high real interest rates, uncertainty about future interest rates and the unsettling effect of on-and-off government stimulation measures and the uncertainty about their future.

Ideally a federal response to the problem of rental housing construction should deal with the underlying factors rather than attempt to deal with the symptoms. However, rent controls are under provincial jurisdiction and it is difficult to shelter mortgage rates from general interest rates. Demographic changes will be affecting demand for rental housing over the next decade in ways that are not totally understood. Though it is not convinced that the underlying factors can be fully dealt with at this time, the study team is suggesting the investigation of some modifications to existing tax measures which it feels will help improve the situation. The study team remains convinced that, however great the temptation, major uncontrolled stimulative programs are undesirable at this time. They are expensive to government, and hinder industry adjustment to changing patterns of demand and supply.

Though rent controls are viewed in widely varying ways by different segments of society, it seems evident that, along with a number of other factors, they have disrupted the workings of the market. They have widened the gap between market and economic rents, have created a climate of distrust among many housing producers, and might lead to increasing deterioration of rental buildings as owners defer maintenance expenses. Since rent controls are solely a

provincial prerogative, it is not clear what, if anything, the federal government can do. Some argue that the federal government should do nothing in the market housing field so that pressure would be put on provincial governments to lift rent controls. Presumably, the situation would then worsen, until the provinces would be forced to act. Though the federal government should not be held responsible for solving problems created by rent controls, it may be difficult to "sit on the sidelines" if serious problems emerge. Alternatively, the federal government could withhold certain forms of assistance from provinces with rent controls, though it is not clear what form of assistance could be used for such a purpose. Certainly it would be unwise to withhold social housing programs to try to force an end to rent controls, as the problem has little to do with social housing, and those in need would suffer the most. The most appropriate approach is one where the federal government engages the provinces in negotiations directed toward an orderly lifting of controls. Though this will be a long process and one which is not assured of success, modifications to federal tax measures may help provinces ease out of controls.

The orientation adopted by the study team toward rental housing is that any future measures related to rental housing production should be more stable, less expensive to government and better controlled than previous stimulative initiatives. New types of mortgages may help some projects reach economic viability, and the study team is suggesting that these be examined. It is also recommending the investigation of changes to the tax treatment of rental buildings which would make them comparable with other investments, and that the feasibility of a tightly controlled and targeted rental construction tax incentive be studied. The risk of doing such a study should be pointed out. It is possible that it would generate industry expectations that another major subsidy program is coming. Such a study would, therefore, have to be carefully managed in order to avoid disruption of the adjustment process in rental markets.

Thus, the study team has chosen to recommend a limited response to the market rental housing problem as outlined above. Much more ambitious initiatives are proposed in the Thematic Essay on Social Housing to provide rental housing for low-income people.

## Housing as an Economic Lever

Stimulation of the housing market in order to affect general economic conditions has long been a tool used by government. However, with the recent spate of stimulative programs now phased out, this is not being done to any great extent at present. Such efforts have succeeded in their economic objectives because the housing industry can react relatively quickly, stimulate other industries and provide substantial employment. However, the use of housing as an economic lever can have undesirable effects on the housing market and the industry. If used inappropriately, such measures can contribute to the volatility of the industry. Busts often follow the booms generated by government stimulation. While there is evidence that stimulation increases the overall level of economic activity, the effect is often to move forward production which would likely have occurred anyway. The study team is of the view that use of the housing sector solely to generate economic growth should be avoided. Broader fiscal and monetary tools, which both have wider impacts and do not unduly disrupt the housing market, are available. This being said, however, the housing sector has a role to play in generating economic growth, and well-designed, controlled measures which stimulate housing production as part of a broader economic strategy are not to be ruled out. They would have to take into account housing needs and the characteristics of the housing market as well as broader economic objectives, and be designed in consultation with the housing industry.

Rehabilitation of existing units is becoming an increasingly important area of economic activity; in fact, total investment in rehabilitation may soon exceed investment in new construction. Housing rehabilitation is labour-intensive and involves many small firms. It is the view of the study team that subsidies for rehabilitation and renovation should no longer be provided, except as a social housing measure. Nevertheless, continued government assistance for technology transfer, research and development may be appropriate.

## Mortgage Instruments

A number of innovative types of mortgages and ways of generating mortgage money are currently being discussed:

a. Mortgage-backed securities, which could help lenders draw upon sources of money not now available for conventional financing and would assist borrowers by making possible longer-term mortgages;
b. Indexed mortgages, which could help first time home buyers by lowering payments in the early years of the mortgage, and rental developers (private, non-profit and cooperatives) by improving cash flow in the early years;
c. Shared-equity mortgages, which could help borrowers obtain more favourable terms in return for sharing equity build-up with the lender;
d. Reverse annuity mortgages, which could help senior citizen homeowners by allowing them access to a portion of the equity they have accumulated in their homes.

There are problems involved in getting any of these accepted in the market place. They require unconventional arrangements on the part of lenders, risks are difficult to predict and the degree of consumer interest is largely unknown.

The passage of previously proposed changes to the Interest Act would permit the introduction of longer mortgage terms and is essential to the use of mortgage-backed securities to finance longer-term mortgages. Indexed mortgages could also be introduced with these changes.

The study team feels that the mortgage market, like the housing market, should be permitted to work with a minimum of intervention. Thus, the passage of changes to the Interest Act should be seen as an opportunity for the private sector to judge the merits of these new instruments and introduce them as warranted. CMHC and the Department of Finance will need to work with lenders and the development industry to investigate and promote new instruments, including the possible testing of them through limited demonstration projects.

The Mortgage Loan Insurance Program has a role to play in facilitating the introduction of these mortgages if they can be shown to be appropriate instruments. Generally, the same terms and criteria should be applied to insuring these types of mortgages as CMHC applies to conventional mortgage insurance applications.

## MAJOR OPTIONS

The study team is forwarding a number of options to the Task Force for consideration by the government in the area of housing and mortgage markets which are designed to help deal with the problems identified in the preceding paragraphs.

Public mortgage insurance plays a major role in ensuring universal geographic access to mortgage funds and has in the past helped to maintain rental construction activity. With the current state of the private mortgage insurance industry, privatization is not a realistic alternative in the foreseeable future. A number of improvements to the program are suggested to move the Fund towards a more self-sufficient position, but is is critical to maintain the policy objective of equal access across Canada. Among these changes are some form of reduced coverage rather than the 100% coverage now provided, an actuarially-sound premium structure and the possibility of premiums which are renewable, rather than extending for the life of the mortgage.

Consistent with the objective of encouraging a well-functioning private market, the investigation of two changes to the Income Tax Act as it affects rental buildings is proposed - removal of the "$50,000 class provision" and inclusion of rental properties in the definition of "former business property", which affect the allowable amounts of capital cost allowance or capital gains deduction. Further, an investigation is suggested into the feasibility of a rental construction tax incentive which would be long-lasting, would include strict guidelines concerning soft costs and would be available only for projects which meet real needs in a particular market area.

With regard to the introduction of innovations in the mortgage market, the study team recommends that previously proposed changes to the Interest Act be implemented to permit longer-term mortgages, mortgage-backed securities and indexed mortgages. CMHC and the Department of Finance should work with lenders and the development industry to investigate and promote these instruments, using CMHC research and development funds where appropriate. CMHC Mortgage Loan Insurance should be open to new types of mortgages, but on the same terms and criteria as are applied to conventional mortgages.

No change is recommended to the tax treatment of capital gains on principal residences because of the major economic and political consequences which would ensue from any modification. However, it is pointed out that, if a change were ever to be considered, now would be an opportune time in view of the general capital gains exemption introduced in the May, 1985 Budget.

The current thrust of the Land Assembly/Development program is to service existing land holdings and market them expeditiously with the highest possible returns. No further lands are being acquired. The study team recognizes that decisions in this area must be made on a case-by-case basis, but recommends that CMHC move towards a policy of selling the land in a raw state rather than investing public funds in servicing.

It is recommended that consideration be given to the elimination of the Mortgage Rate Protection Program because of its extremely low take-up and the unlikely prospect of a substantially increased take-up in the near future.

## IMPLICATIONS

### Financial

Immediate savings in federal expenditures will not occur as a result of the recommendations in the area of housing markets. The possible changes to the Income Tax Act would result in foregone revenues if implemented. Minor savings would accrue from elimination of the Mortgage Rate Protection Program and changes to the Land Assembly Program. The costs of any program which might emerge from the rental construction tax incentive study would only be known when the study is completed.

CMHC expenditures in market housing are relatively small and decreasing. The study team expects this to continue and does not condone any return to the costly market programs of the 1970s and early 1980s.

It is expected that the suggested improvements to the Mortgage Loan Insurance Fund will result in reduced future liability for the federal government. The current actuarial deficit of $786 million probably cannot be avoided, but new business will expose the government to considerably less risk with the recommended changes.

**Organizational**

Relatively minor reactions are expected to the market housing recommendations. The housing and building industry is not expecting any major government initiative at this time, but would welcome federal government intervention in the rent control issue. The proposed study of a more modest, better targeted rental construction tax incentive will be of interest to the industry. It is important that the study be carried out expeditiously so that the industry does not come to a halt while waiting for the results. No reintroduction of massive short-term stimulation programs accords with the conclusions of a federal/provincial sub-committee on market housing and the study team's consultations with the industry.

The Mortgage Insurance Corporation of Canada, the only private mortgage insurer in the country, will likely react negatively to a decision not to privatize mortgage insurance.

**Legislative**

The recommended changes to the Mortgage Loan Insurance Program will require modifications to the National Housing Act.

Any changes to the tax treatment of rental properties would require modifications to the Income Tax Act.

Changes to the Interest Act which have already been proposed would have to be enacted to promote the use of certain new mortgage types.

## MORTGAGE LOAN INSURANCE
## Canada Mortgage and Housing Corporation

### OBJECTIVE

The stated objective of the Mortgage Loan Insurance program is to promote the effective operation of the mortgage market and the housing market by providing leadership in mortgage insurance on a full-recovery basis, while pursuing additional objectives.

Mortgage insurance contributes to the achievement of this objective by encouraging the flow of mortgage funds to facilitate access to home ownership and to promote investment in rental housing.

### RESULTS/BENEFICIARIES

Of all institutional residential mortgage loans in 1984, 42% were insured and 89% of the insured loans were insured by CMHC. Mortgages approved for some 164,000 new and existing dwelling units in 1984 were insured by CMHC. The bulk of these loans were for between 80% and 90% of the lending value of the property.

Mortgage insurance protects lenders, and to a certain extent investors in those institutions as well, by reducing the risk of high-ratio loans. It also assists homeowners by easing their access to high-ratio loans. Legislation governing lending institutions requires that most of them may only provide loans higher than 75% of appraised value of the property if insured.

### AUTHORITY

Part I of the National Housing Act (NHA, 1954) provides legislative authority for the insuring of mortgage loans and establishes the Mortgage Insurance Fund (MIF) as a separate account administered by CMHC.

**RESOURCES** **($ millions)**

| | 83 | 84 |
|---|---|---|
| Administrative expenses (1) | 58 | 66 |
| Claims and other expenses | 290 | 611 |
| Total expenses | 348 | 677 |
| | | |
| Loan forgiveness | - | 308 |
| Premiums and other revenue | 88 | 96 |
| Total revenues | 88 | 404 |
| Net loss | 260 | 273 |
| | | |
| Assets | 322 | 272 |
| Liabilities (2) | 835 | 1058 |
| Deficit | 513 | 786 |
| | | |
| Budgetary voted - loan forgiveness (3) | - | 308 |
| Budgetary statutory (4) | - | 60 |
| | | |
| Person-years (1) | 1323 | 1350 |

**Notes**

1. Includes direct business-related, support and overhead.
2. Includes estimate for future losses on claims.
3. This amount is included in Revenue.
4. Net funds extended to CMHC to cover liquidity needs - recorded as loans by CMHC and as budgetary expenditures by Canada.

**DESCRIPTION**

Under this program, CMHC as administrator of the MIF, insures eligible first mortgage loans made by private approved lenders. In return for a premium paid by the borrower, the lender is protected from loss due to default. Insurance can be obtained to finance new and existing home ownership housing, private rental projects and non-profit and cooperative housing projects. The MIF is intended to be self-sufficient.

The MIF is experiencing both solvency and liquidity problems. The actuarial deficit of the MIF at the end of 1984 was $786 million. CMHC projects that this deficit will fall to $165 million by the end of the decade, assuming that

the government forgives $510 million over the next three years, in addition to the $308 million forgiven during 1984.

A large part of the problems of the MIF is due to the high number of defaults under the Assisted Rental Program (ARP) and the Assisted Home Ownership Program (AHOP), as well as the downturn in the Alberta economy. Additional problems are due to a history of uneconomic premiums and application fees. CMHC has recently revised its fee structure, although insurance premiums for certain high-risk loans appear to be still far too low in actuarial terms.

Properties acquired by the MIF as a result of claims on default are presently valued at $149 million, although acquisition costs and other expenditures were $315 million. Inability to move these properties contributes to the liquidity problems of the MIF.

**OBSERVATIONS**

Although at one time there were three private mortgage insurers with about a two-thirds share of the market, there is now only one private mortgage insurer with about 13% of the market. The Mortgage Insurance Company of Canada (MICC) has been suffering serious losses in the last few years and may not be able to survive without government help.

The significant differences between MICC and CMHC (MIF) are:

a. MIF pays no taxes and is not subject to Department of Insurance requirements regarding equity relative to insurance in force;
b. MIF provides full protection to the lender for principal owing and all expenses, whereas MICC may limit its risk exposure by use of what is commonly known as "Option B"settlement - confining the lender's claim to 25% of costs and not taking title to the property from the lender;
c. MICC offers a short-term renewable premium in addition to a longer-term one like CMHC's, but take-up is low;
d. MICC has not insured social housing projects and at present serves only larger urban areas; and

e. MICC insures very few rental projects at present (because of low premiums), but also covers commercial and industrial mortgages.

In the U.S.A. and Australia there are both private and public mortgage insurers. In Canada, only the province of Alberta has self-insurance scheme. British Columbia has a program of subsidized second mortgages for first-time homebuyers that reduces the need for mortgage insurance for this group by helping to keep first mortgages under 75% loan-to-value.

Even within the past five years, a variety of objectives has been enunciated for public mortgage insurance, including:

a. the general one of encouraging an adequate supply of funds to housing;
b. ensuring the availability of loans to sectors that might otherwise be unserviced (e.g. remote communities, resource towns, rental projects);
c. promoting innovative mortgage instruments;
d. permitting the implementation of social housing programs;
e. supporting the maintneance of housing and community standards;
f. permitting low down payments so that more people can enter the housing market; and
g. encouraging the development of a secondary mortgage market to increase the availability of mortgage funds.

Some of these objectives conflict with the overall constraint of self-sufficiency that has been considered an important parameter of public mortgage insurance in Canada (#b,c,d), even objective (f.) might be in conflict with self-sufficiency, as the size of the down payment would be tempered by the amount of risk the MIF was prepared to take. Other objectives may no longer be relevant given the relatively healthy state of the mortgage market vis-ã-vis other sectors of the capital market (#a, g), or may be redundant given municipal regulations and services (#e). Finally, it could be argued that, with the exception of the ones in conflict with self-sufficiency, these objectives could be met by private sector mortgage insurance.

If public mortgage insurance is to be provided on a totally self-sufficient basis, then either premiums must be charged commensurate with risk - which would probably price certain sectors out of the market - or certain high-risk or

unpriceable social objectives (#b,c,d) must be dropped entirely. Under these circumstances, there would then be no reason to maintain a public sector presence, except if it was necesssary to avoid a monopoly situation.

If, on the other hand, the social objectives were paramount, they could be partially paid for by the profits of the commercially viable side of the business, or non-market applicants could be separated out and more directly subsidized.

Various commentators have proposed a role for public reinsurance as protection against catastrophic risk. However, reinsurance does not necessarily require public intervention, except perhaps for social objectives. It could be provided by the private sector, most probably by international companies who have a broader base for risk-sharing.

Although the private sector mortgage insurer is at present suffering financial hardship, experience elsewhere suggests that if competitive conditions were appropriate, the private sector could re-emerge.

CMHC has embarked on a major evaluation of the program and results are expected in late 1985.

The study team has considered whether mortgage loan insurance could be included, within an organization proposed by the study team on Services and Subsidies to Business, to provide consolidated financial services to small business. Since the beneficiaries of mortgage insurance are usually lending institutions and individual homebuyers, it does not appear well-suited for such consolidation.

## OPTIONS

### Maintain the program as is with some improvements

The improvements would move the MIF towards a more business-like basis, but the primary public policy objective of equal access across Canada would be paramount. Aspects of the program could be redesigned to improve the financial position of the fund, while maintaining a mix of objectives.

### Design the program to operate on a strictly commercial basis

Premiums would be commensurate with risk. Insuring for social objectives could be handled in three possible ways; it could be dropped entirely; it could be done at breakeven

premiums but with direct government subsidies to assist borrowers in paying the premiums; or it could be done with insufficient premiums but with government agreement in advance to pay excess claims on pre-defined types of programs.

**Eliminate public sector mortgage insurance**

Allow the private sector to provide mortgage insurance on a commercial basis with private sector reinsurance. For that segment considered uninsurable because of high risk or inability to set prices, CMHC would provide reinsurance or contract for the insurance service. Although this measure does not produce easily quantifiable savings to government, it would limit the size of the risk assumed and reduce parallel service.

The study team recommends to the Task Force that the government consider maintaining the program with improvements. Given the recent history of both public and private mortgage insurance in Canada, it may not be feasible, or even desirable, to remove the government from the mortgage insurance market at this time. The ultimate viability of private sector mortgage insurance is open to question, and it is also not clear whether coverage in all parts of Canada could be assured with only the private sector providing insurance. Therefore, public mortgage insurance should be retained, with a primary objective of providing equal access to mortgage insurance across Canada. At the same time, efforts should be made to maintain a competitive environment for the private sector and improve the financial position of MIF in the following manner:

a. screen applicants who take over existing mortgages on the same basis as new applicants
b. institute a deductible, or other options for less than full coverage, to encourage prudent underwriting by the mortgage lender, who at present takes no risk;
c. where applicable, settle claims with debentures of the same term and interest rate as the outstanding mortgage at default;
d. ensure that companies developing resource communities share the insurance risk;
e. consider substituting renewable premiums or term insurance for the present up-front premium covering the full amortization period; and

f. maintain an actuarially sound premium structure, with the one exception that premiums should remain geographically invariant.

The MIF should be used to promote innovative mortgage instruments only to the extent that this can be done using normal criteria and procedures. If there is a need for extraordinary protection, possibly for demonstration projects, this should be provided by other measures, such as ministerial guarantee.

## RESIDUAL LENDING
## Canada Mortgage and Housing Corporation

**OBJECTIVE**

The stated objective of the program is to provide mortgage loans directly where they are not available through private sources. The purpose is to ensure universal access to mortgage financing.

**BENEFICIARIES**

With mortgage money readily available from private sources, the residual lending function of CMHC has been used sparingly in recent years. However, it still fills a small gap in the mortgage markets (178 units in 1983, 148 units in 1984, mainly in Quebec, the Yukon, the Northwest Territories and Newfoundland).

**AUTHORITY**

National Housing Act, Section 58.

**RESOURCES ($ millions)**

| Cash Flow | 84/85 | 85/86 | 86/87 | 87/88 | 88/89 |
|---|---|---|---|---|---|
| a. Gross non-budgetary advances (loans) | 3.2 | 8.2 | 9.5 | 9.6 | 9.2 |
| b. Principal repayments | 106.2 | 62.7 | 56.1 | 54.1 | 50.7 |
| c. Interest rate losses | .012 | .01 | .009 | .008 | .007 |

**DESCRIPTION**

CMHC provides mortgage funds directly to applicants who cannot obtain such funds from private sources. CMHC must be satisfied that private funding is not available, and usually requires three letters of refusal from recognized lenders.

The program is not designed to cover applicants who are bad risks, but rather applicants who are in isolated areas or situations not serviced by private lending institutions.

In evaluating an application, CMHC runs the same checks and applies the same criteria as any prudent lender. Administration of the program is decentralized.

Residual loans must be insured through CMHC's Mortgage Loan Insurance program. The interest rate is fixed by CMHC by contacting ten lenders and adopting the median rate.

The program is used for three purposes:

a. to assist individual home buyers;

b. to facilitate the sale of certain Mortgage Insurance Fund properties; and

c. to facilitate the sale of certain CMHC-owned properties.

In recent years, the great majority of the funds have been used to assist individual home buyers.

**OBSERVATIONS**

In the past, the program was used extensively to stimulate construction and job creation. In the period from 1968 to 1975, for example, CMHC direct loans financed about 15,000 units per year. The first condominiums were built with Section 58 loans.

With the exception of certain areas, private financing is now available virtually everywhere. Even low-income neighbourhoods in major cities have been experiencing no difficulty in this respect.

Even though this is a small activity currently, it fills a gap and is important in a "social" as much as a "market" sense. It helps to assure that Canadians in remote areas will have access to mortgage funding. Conditions could develop in the future where residual lending becomes more important because there is a larger gap to be filled.

The current policy of relying on the private sector for the vast majority of mortgage loans should be continued. However, the residual lending function is one which CMHC should maintain.

In recent years, the amount actually spent was much smaller than the allocated budget (45% in 1983, 27% in 1984). CMHC should bring its estimates for future spending on residual lending more in line with recent experience.

## OPTIONS

There are two options for the future of this program: eliminate it or keep it as is. The small take-up indicates that there is little demand for expanding residual lending at this time. However, the program fills a gap by assuring that Canadians in remote areas have access to mortgage financing. A necessary federal housing tool would be lost by eliminating it.

The study team recommends to the Task Force that the government maintain this program, except that CMHC should reduce its estimates for future spending on residual lending to bring them in line with recent experience.

## MORTGAGE RATE PROTECTION PROGRAM (MRPP)
## Canada Mortgage and Housing Corporation

### OBJECTIVE

The stated objective of the program is to give Canadians the opportunity to purchase protection against substantial increases in mortgage payments when they renew their mortgage. An implicit objective is to help restore confidence and stability in the mortgage market.

### RESULTS/BENEFICIARIES

The results to date have been minimal. Though set up to receive 20,000 applications a month, CMHC has received only 78 applications from its inception in August 1984 up to April 30, 1985. A total of 69 applications has been approved. The beneficiaries are intended to be homeowners.

### AUTHORITY

National Housing Act Sections 34.81 to 34.89.

### RESOURCES ($ millions)

| | 1984 | 1985 |
|---|---|---|
| Operating expenses | 0.9 | 0.4 |
| Person-years | 16 | 4 |

### DESCRIPTION

Since the late 1970s, mortgage interest rates have been highly volatile. Shorter-term mortgages have allowed lenders to transfer much of the risk to borrowers. Without some form of protection, mortgage borrowers bear a large proportion of the risk of higher interest rates upon renewal. This can lead to increasing foreclosures and forced house sales.

For a period from 1981 to 1983, CMHC offered the Canada Mortgage Renewal Plan which provided payments equivalent to the amount by which mortgage and property tax payments exceeded 30% of income as a result of mortgage renewal.

This assistance was available to anyone who met the criteria. MRPP is an attempt to provide a more limited form of protection for mortgage borrowers.

An applicant must own and occupy his house as a principal residence, and obtain a mortgage with a term of one year or more. He can protect up to $70,000 of his outstanding mortgage balance. He makes one payment of 1.5% of the outstanding principal at the time of application, which can be amortized over the life of the mortgage at the discretion of the lender. At renewal time, if interest rates have risen between two and 12 per cent above the initial rate, he receives from CMHC 75% of the increase in monthly payments above the 2% deductible. Increases above 12% are not covered. The benefit payments begin when the mortgage is renewed and continue for the same number of years as the previous term of the mortgage. Benefits are paid monthly. Interest rate increases cannot exceed increases in the "reference interest rate" established by CMHC.

For example, assume a five-year $70,000 mortgage at 12½%. Monthly payments are $747. The MRPP premium payable is $1,050. If, at the time of renewal, rates have increased 5%, CMHC pays the household $105 per month for a period of five years, for a total benefit of $6,300. The homeowner's new monthly payments would be $873 instead of $978.

It was intended that MRPP be designed so that the net costs will be close to zero and the functioning of the mortgage market would not be impaired. The premium levels and limitations on protection are designed to achieve this despite the difficulty of pricing such protection.

An MRPP Centre has been set up by CMHC to handle 20,000 applications per month with a computerized application and claims process. The Centre also provides an information service with a toll-free number, liaison with lenders, advertising, and monitoring and control. There have been some 68,000 inquiries since the program began. Because of the very low volume of applications, CMHC intends to merge the Centre with other national office functions.

**OBSERVATIONS**

MRPP allows the homeowner to exert some significant (though not total) control over his monthly payments for a period double the term of his mortgage. He is not protected

for an increase of 2% or less nor for an increase over 12%. Further, the program covers only 75% of the increase in the monthly payments.

The extremely low take-up can be explained by several factors: significantly lower interest rates, a low level of advertising and promotion, the unsupportive role of lenders and, possibly, the cost and structure of the program. It is the view of the study team that a higher level of promotion of the program would not significantly increase take-up unless interest rates were rising and were expected to continue to rise. Consumers make decisions on the basis of the information they have, and at present that information does not indicate a rapid rise in interest rates in the foreseeable future.

Lenders have not been active in delivery of the program. They seem to feel it is complex and expensive, and there is little incentive to get involved as no monetary benefits accrue to participating lenders. Some lenders have announced early renewal schemes which provide the borrower increased flexibility by giving a degree of control over the timing of renewal. The effective use of these schemes by borrowers depends largely on luck. They are in no way a replacement for a program like MRPP.

The statement that the program is expensive to consumers has to be balanced against the objective of making MRPP a self-sufficient program. Research indicates there may be a larger take-up if the premium were reduced and the 2% deductible eliminated. However, mortgage rate protection is extremely difficult to price. Some analysts believe the government risks significant deficits even under the present terms if extreme circumstances develop. Reducing the premium or eliminating the deductible would place the government at an even greater risk.

It is not clear whether the private sector would ever offer mortgage rate protection. However, if the program continues, CMHC should price its coverage at at least break-even levels so as not to preclude any future private sector initiatives.

MRPP is a second-best solution to problems caused by the lack of long-term mortgage funding and the slow introduction of new types of mortgages. The availability of ten-year mortgage terms or indexed mortgages would tend to lessen the rationale for the program. It is possible that

few consumers would purchase protection for a period more than ten years away, and such protection would be even more difficult to price. Ten-year mortgages would be a preferable alternative to rate-protected three and five-year mortgages.

There is no doubt that dramatic mortgage interest increases create severe problems for some homeowners. The MRPP provides a degree of protection, with the necessary limitations to protect the government's position. At present it costs very little to administer the program because the take-up has been so low. A federal-provincial working group has recommended that MRPP continue and that CMHC look at possible improvements.

Several provinces have offered varying types of mortgage rate protection through their own programs. These programs were popular as they generally offered more protection than MRPP. The costs to the provincial governments involved was high, though less than anticipated due to declining interest rates.

The MRPP take-up has been much too small to justify its continuation. Though its costs are not high at present, credibility problems result from a program which benefits 69 households. It is the study team's view that much larger take-up is unlikely in the foreseeable future because of the current stability of mortgage rates.

**OPTIONS**

**Keep the program as is with administrative savings where possible**

Small amounts could be saved by merging program operations with other national office functions. This would ensure that initial investments in setting up the program would be safeguarded. With this option a program would be in place if the need emerges in the near future.

**Eliminate the program**

This would save about $387,000 per year in operating expenses and four person-years. It would also eliminate any future risk to the federal government. The program could be re-established at a later date at minimal cost if necessary, provided that the original software and administrative materials were preserved.

**Liberalize the terms and conditions of the program**

It is felt that lower premiums and greater protection would increase the risk to the federal government unnecessarily. Discussion with certain provinces concerning cost-sharing of an enriched MRPP should be treated with great caution. The temptation to liberalize the terms of the program should be resisted so as to keep federal risk at a minimum.

The study team recommends to the Task Force that the government consider eliminating this program because of the extremely low take-up and the unlikelihood that it will increase in the foreseeable future. More emphasis should be placed on better solutions such as longer-term and more imaginative types of mortgages.

## LAND ASSEMBLY/DEVELOPMENT
## Canada Mortgage and Housing Corporation

### OBJECTIVES

The objectives of this program are:

a. to dispose of all federal and federal-provincial land holdings at market price; and

b. to promote a high standard of residential development and a satisfactory community environment.

### RESULTS/BENEFICIARIES

Beneficiaries of this program include:

a. small and medium-sized builders, who can purchase fully-serviced lots at competitive prices;

b. federal and provincial governments, who are recouping their investments; and

c. communities, which benefit from the planned developments which take place on these land holdings.

### AUTHORITY

National Housing Act, Sections 40 and 55.

### RESOURCES

| | ($ millions) | | | |
|---|---|---|---|---|
| | 84/85 | 85/86 | 86/87 | 87/88 |
| Non-Budgetary Advances | 13.3 | 13.4 | 13.7 | 21.4 |
| Losses on Disposal of Land | 6 | 3 | 2 | 2 |

### DESCRIPTION

Section 40 lands were acquired for the purposes of developing publicly-owned land banks, influencing land

values and supporting orderly urban growth. Section 55 lands were acquired by CMHC for a variety of purposes, among them demonstration projects.

No further lands are being acquired under the Land Assembly program. The thrust of the program at this time is to service and market the existing portfolio, which consists of 8,500 acres of federal-provincial lands (Section 40) and 1,700 acres of CMHC-owned lands (Section 55).

Under Section 40, land is acquired, developed and sold by a federal-provincial partnership on a 75/25% basis. All provinces except Alberta and Quebec are participating. Under Section 55, federal lands held by CMHC are being developed and sold with the intention of producing revenues and profit for the corporation.

This program is now being delivered with the following guidelines:

a. To assure the highest possible return to the federal government in disposing of its land assets; and

b. To provide assistance to small- and medium-sized builders by providing fully-serviced lots at competitive prices, using terms that lower builders' cash flow requirements and providing technical assistance and coordination on site for an orderly, efficient and well-designed community.

CMHC can either sell the lands "as is", register a plan of subdivision and then sell unserviced, or invest in servicing the lands prior to putting them on the market. Decisions are made on a case-by-case basis.

The program is largely centralized in the CMHC national office. Under Section 40, the relevant provincial agency is designated as the "active partner" wherever possible and is paid 6% of development costs as an administration fee. Under Section 55, CMHC-owned lands are developed and sold entirely by the national office.

**OBSERVATIONS**

The remaining inventory of federal-provincial land holdings (Section 40) have an estimated net book value (acquisition plus carrying costs) of $73 million and an estimated market value of $132 million in an "as is"

condition, which would yield a net profit of $59 million. CMHC estimates that it can increase the net profit to $97 million by servicing the land prior to sale in certain cases.

The major corporation-owned land holdings (Section 55) are in Ottawa (Orleans, Woodroffe, and the national office lands) and Quebec City. The net book value of all Section 55 lands is $60 million. No estimate of market value is available. Development of the Orleans and Woodroffe lands is underway, and the national office lands are in the planning stage.

There are many factors to be taken into account in deciding whether to market these lands in a raw or serviced state:

a. Sale of raw lands opens the possibility of windfall profits to the buyer on resale. Since these lands were bought with public funds, such an eventuality could expose the government to criticism;

b. There is a risk involved in investing considerable funds in servicing and then finding that the lands are difficult to sell or do not bring the expected returns. Over $20 million a year are forecast in servicing costs starting in 1987/88;

c. Section 40 lands are jointly owned with the provinces. Since the provinces' risk is less (25% share), they in some cases prefer servicing the land first. In that way, they can assure that the land will be used for housing;

d. In the case of some parcels, the province or municipality has a strong interest in the form the future development takes. Thus, they prefer prior servicing and tight control over the use of the land; and

e. Smaller builders may find it hard to compete for large raw land holdings, whereas they can participate if land is serviced, subdivided and sold in stages.

The approach of registering a plan of subdivision without servicing the lands prior to marketing them is a potential low-cost alternative. However, this approach might impair the marketability of the lands, as a purchaser may not be willing to accept the terms of registration negotiated by CMHC.

There are constraints on the speed of the disposal process. In some markets, CMHC has to be careful to avoid an undue impact on already soft land prices and on the viability of privately-sponsored developments.

**OPTIONS**

- Maintain the present strategy of disposing of the land portfolio, with decisions as to servicing made on a case-by-case basis.

- Move toward a greater degree of servicing prior to disposal.

- Move toward a policy of selling the lands in a raw state.

- Hold on to some of the lands for "land bank" or "demonstration project" purposes.

The study team recommends to the Task Force that the government move toward a policy of selling the lands in a raw state, recognizing, however, that decisions will have to continue to be made on a case-by-case basis. Lands should generally be sold "as is" unless:

a. It can be shown that the expected increase in profits from servicing clearly justifies the front-end costs;

b. The interested province or municipality can demonstrate that the form of the future development is of crucial importance and therefore justifies public investment and control; or

c. The land cannot be marketed in a raw state.

## STIMULATIVE PROGRAMS
## Canada Mortgage and Housing Corporation

### OBJECTIVE

There is no single objective that has been formulated to cover all the programs included in this assessment. What they have in common is that they were all temporary measures designed to stimulate production of ownership or rental housing and provide jobs.

### RESULTS/BENEFICIARIES

| | | |
|---|---|---|
| Assisted Rental Programs (ARP) | - | between 1975 and 1980, a total of 122,647 new rental units were assisted, as well as 47 hostel beds and 249 units in existing housing. |
| Assisted Home Ownership PROGRAM (AHOP) | | loans were approved for 94,205 ownership units between 1975 and 1979. |
| Canada Rental Supply Plan (CRSP) | - | 21,683 new rental units were assisted by the program. |
| Canadian Home Ownership Stimulation Plan (CHOSP) | | 260,115 homebuyers received contributions. |
| Canadian Home Renovation Plan (CHRP) | - | 121,476 homeowners received assistance. |

### AUTHORITY

National Housing Act, Section 14.1 (ARP and CRSP); Section 35.15 (AHOP and CHOSP); and Section 34.1 (CHRP).

RESOURCES

| | ($ millions) | | | | | |
|---|---|---|---|---|---|---|
| | **75/81** | **82/84** | **85** | **86** | **87** | **88** |
| ARP budgetary | 111 | 119 | 55 | 52 | 47 | 42 |
| non-budgetary | 272 | 181 | 50 | 44 | 36 | 23 |
| AHOP-budgetary | 188 | 31 | 1 | 1 | 1 | 1 |
| non-budgetary | 855 | 13 | - | - | - | - |
| CRSP budgetary | - | 22 | 22 | 25 | 28 | 29 |
| non-budgetary | - | 130 | 39 | 26 | 8 | 2 |
| CHOSP budgetary | - | 799 | - | - | - | - |
| CHRP budgetary | - | 236 | - | - | - | - |
| **TOTAL** | 1,426 | 1,531 | 167 | 148 | 120 | 97 |

DESCRIPTION

ARP has been changed several times since it was introduced in 1974. Although new commitments terminated in 1978, there is an ongoing cost due to the program design. The program provided assistance to entrepreneurs using private financing to construct new, moderately-priced rental housing who agreed to limit rent and rental increases. Initially, assistance was in the form of a non-repayable subsidy; then an interest reduction loan advanced over ten years and interest-free for the time was introduced; finally a payment reduction loan was introduced which provided advances covering part of principal and interest payments on the first mortgage. All of these forms of assistance had the common feature of being stepped-down over time.

AHOP was introduced in 1974 to provide assistance to low-and moderate-income families building or buying new homes for their own occupancy. Like ARP, it began as a contribution program, but was subsequently changed to provide, first, interest reduction loans and, later, payment reduction loans. Like ARP, all forms of AHOP assistance were designed to be stepped-down over time. New commitments terminated in 1978.

CRSP was introduced in 1981 and new commitments will end in 1985, although expenses will continue for 15 years. The program provides second mortgage loans, which are interest and payment free for 15 years, to entrepreneurs constructing rental housing units in tight market areas

using privately-financed insured mortgages. The loan repayments are amortized over the sixteenth to twenty-fifth years.

CHOSP was introduced in June 1982, and lasted until December 1983. Although there were variations in the criteria, the basic plan provided contributions of $3,000 to purchasers of homes to be used as principal residences. There were no income limits, but there were price limits of $150,000 in higher-priced markets and $100,000 elsewhere.

CHRP ran from March 1982 to July 1983. It provided assistance for up to 30% of the cost of home repairs and improvements to a maximum of $3,000. Households with incomes up to $30,000 were eligible for the full amount; those with incomes over $30,000 had assistance reduced progressively down to zero at $48,000 income.

## OBSERVATIONS

There is little doubt that these programs did what they were most directly intended to do: ARP and CRSP assisted in the production of rental housing; AHOP allowed moderate income families to purchase homes; and CHOSP and CHRP stimulated the construction industry. The questions are at what cost, and with what other effects.

These programs have been subject to severe criticism. The AHOP and ARP programs were designed with an expectation of increasing income and housing values which did not materialize. The defaults under these programs have been and are expected to continue to be large. Cash losses to the Mortgage Insurance Fund on these two programs have been and are expected to continue to be large. Cash losses to the Mortgage Insurance Fund on these two programs were $632 million to the end of 1984, and estimates of the present value of future claims are $128 million. In an effort to reduce foreclosures under these programs, assistance to AHOP homeowners was extended twice, following which they were offered assistance, through the Canada Mortgage Renewal Plan. Special financial assistance has also been extended to a number of ARP projects which were facing foreclosure but which might be profitable over the longer term.

Both rental programs, ARP and CRSP, have been criticized as being a costly way to stimulate rental

starts. It has been suggested that the subsidies may have been capitalized into the cost of the land, although this suggestion may apply more to ARP, which was often used in combination with the Multiple Unit Residential Building (MURB) tax concessions. Furthermore, it is not known to what extent units built under these programs simply displaced unassisted starts; one estimate suggests that 40% of ARP units would have been built anyway. Some CRSP projects received condominium designation at initiation, and may not remain rental projects for long. Some CRSP projects, at least those approved up to mid-1984 when the criteria where tightened, have been higher end-of-market or luxury units.

The CHOSP and CHRP programs too may have simply displaced unassisted activity, and CHOSP has been criticized by some industry representatives as creating disruption to normal cycles by simply bringing forward planned work. CHOSP has even been accused of damaging the Mortgage Insurance Fund, by leading to an unexpected exodus from some rental projects and threatening their viability.

All of these programs have been subject to more general criticisms.:

a. Their on and off nature creates uncertainty and instability;

b. They may slow down the speed with which the industry adapts to a new market reality;

c. They do little to address the fundamental problems to whose symptoms they respond; and

d. They are not part of a broader, longer-term housing strategy.

There are few who would argue that building homes for sale is an industry which requires any incentives at present. However, rental housing is not being produced at required levels, and as a consequence, markets where rental vacancy rates are low are not receiving any relief. Further, stimulation of the housing market in order to affect more general economic conditions has long been a tool used by government. Though there is little doubt that stimulating the housing market also stimulates other industries and provides employment fairly quickly, such stimulation measures may well have undesirable effects on

the housing market itself. Thus, stimulative measures could be used for two purposes in today's market:

a. to stimulate rental production; or
b. for general economic stimulation.

In view of the experience with the programs reviewed in this assessment, short-term stimulative programs can produce serious market disruptions and should be used as a last resort only. If stimulation is needed to increase production of rental housing, it should be provided through more stable, less disruptive and better controlled measures - perhaps through the tax system or through minor interest cost write-downs. The measures must be designed with other constraints in mind - interests rate uncertainty, rent controls, and the difference between market and economic rents. Essentially, an attack on the problem of rental housing should deal with the underlying factors rather than rely on individual stop-gap programs.

Use of the housing sector solely to generate economic growth should generally be avoided. Broader fiscal and economic tools are available which both have wider impacts and do not disrupt unduly the housing market.

**OPTIONS**

a. Avoid stimulative measures, assuming that the underlying factors affecting rental production will be resolved and it will become viable;

b. Only use stimulative measures as a last resort; and

c. Introduce more stable, better-controlled measures which have less immediate stimulative impact, but can be counted on to be long lasting.

The study team recommends to the Task Force that the government consider terminating all of these programs. Although there may be future occasions when the economic situation seems to demand some temporary stimulus measure, any such program should jointly be undertaken when absolutely necessary, after consultation with the industry and careful consideration of possible unintended effects, and with due attention to design details. Programs of this nature should be used only as a last resort.

## NON-TAXATION OF CAPITAL GAINS ON HOMES AND IMPUTED RENT
## Department of Finance

**OBJECTIVE**

The objective is to encourage home ownership.

**BENEFICIARIES**

The tax exemption permits homeowners to benefit fully from appreciation of what for many of them is their major asset. The number of beneficiaries is not available, but undoubtedly many millions have benefited over the years, often more than once. The program has encouraged homeownership, and has become a long-term, stable and popular element of the government's housing package. A perhaps unintended impact has been an inflationary effect on house prices, resulting from buyers having more money to spend on housing.

**AUTHORITY**

Income Tax Act.

**RESOURCES (\$ millions)**

| | 80 | 81 | 82 | 83 |
|---|---|---|---|---|
| Foregone revenue | 640 | 640 | 360 | N/A |

Earlier calculations by the Department of Finance put foregone revenue from this measure at \$2.5 billion in 1979. New calculations have drastically reduced this figure. Other researchers have estimated \$890 million in 1971 (P. Fulton)* and \$1.98 billion in 1975 (R.S. Smith)**.

Foregone revenue from an associated tax measure, the non-taxation of imputed income on equity in an owner-occupied house (imputed rent), was estimated by Finance in 1979 to be \$3.7 billion. This figure should be treated with suspicion. Other estimates range from \$394 million in 1971 (P. Fulton)* to \$1.12 billion in 1975 (R.S. Smith).**

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* P. Fulton, Homeowner Inputed Rent and Capital Gain: Implications for Equity within the Tax System (University of Western Ontario, 1980).

** R.S. Smith, Tax Expenditures: An Examination of Tax Incentives and Tax Preferences in the Canadian Federal Income Tax System (Canadian Tax Foundation, 1979).

**DESCRIPTION**

Capital gains associated with the sale of an owner-occupied principal residence are completely exempt from tax. The May, 1985 Budget put into place a cumulative tax exemption for all capital gains up to a lifetime limit of $500,000. Capital gains from the sale of an owner-occupied residence will not reduce an individual's entitlement to the new lifetime capital gains exemption.

The literature contains references to the possibility of taxing imputed income on equity in an owner-occupied house. The value of services provided by an owner-occupied house is considered by some economists as a component of real income. A homeowner receives a flow of income in kind from his occupancy of the house equal to the net rental value of the house. This flow of income is not taxed. A renter, owning another kind of asset which yields a similar flow, but of cash income, is required to include it in his taxable income. Some argue that, if the tax system treated homeowners as renters are treated with respect to other assets, the net imputed rental value of the home would be considered part of taxable income. Imputed net rental income is the gross rental value of an owner-occupied dwelling less the expenses of mortgage interest, property taxes, maintenance and repairs.

**OBSERVATIONS**

There is little doubt that the bias in favour of homeownership in Canada is partly the result of the non-taxation of capital gains and imputed rent on owner-occupied homes. Of course, other factors come into play, such as societal values in favour of homeownership, greater control over increases in shelter costs, and greater control over one's environment.

To the degree that government's objectives have been to encourage homeownership, the non-taxation of capital gains and imputed rents has been successful. Some have argued, however, that these tax exemptions represent a major benefit to homeowners with no compensating benefit for tenants. Others have argued that they encourage an over-investment in housing compared to other sectors of the economy, and likely have an inflationary impact on house prices.

For the majority of Canadians whose major assets are their homes, the non-taxation of capital gains represents a significant tax break. It allows homeowners to build up and shelter equity in their homes, trade up to better homes, and perhaps "cash in" their equity at retirement.

Imputed rent is a rather esoteric concept, difficult to understand and hard to measure. Though it has been taxed at various times in a number of countries, difficulties have been encountered and some have discontinued the tax. As late as the mid-1970's, some 12 countries were still taxing imputed rent.

These programs represent a substantial amount of foregone revenue which could otherwise be collected and used to achieve other housing goals. Their benefit to those Canadians in greatest need of housing assistance is negligible. Taxing capital gains and/or imputed rent and using the proceeds for social housing programs would, in terms of welfare economics, be a progressive step. Though the amounts which would be collected are difficult to estimate, there is no doubt they would cover a major portion of CMHC's annual budgetary expenses.

Such a step could not be taken without major economic and political consequences. However, there is now an opportunity to include the exemption for capital gains on homes in the overall $500,000 capital gains exemption which was introduced in the May 1985 Budget. This would make the treatment of capital gains slightly more progressive, in that taxpayers who reach the $500,000 maximum from other sources would no longer be able to claim an exemption on the sale of their home. Thus, the benefits of the capital gains exemption would accrue more to the average Canadian.

It is not clear what effect the $500,000 lifetime capital gains exemption will have on investment in owner-occupied homes and other residential properties. For the small investor, it makes acquisition of a rental property at least as advantageous as acquisition of a home. In both cases, capital gain will be exempt from tax, and in the case of a rental property, interest payments and other expenses can also be deducted. Furthermore, renters could choose to remain tenants and invest in other assets with the same assurance that their capital gains will be sheltered. For larger investors, the fact that the gain realized from an owner-occupied home is not included in the $500,000 lifetime maximum retains some importance. Overall effects of the new measure might be to reduce the demand for homeownership, therefore increasing the demand for rental

units, and to tilt investor preferences away from homes and toward other assets. At any rate, it is too early to do other than guess.

**OPTIONS**

**No change**

Adoption of a status quo alternative would avoid the economic implications and possible major political consequences of eliminating a long-standing, popular element of the federal housing package. However, an opportunity to make the treatment of capital gains slightly more progressive would be lost.

**Include capital gains on homes in the general $500,000 capital gains exemption**

As noted in the observations, the exemption for capital gains on owner-occupied homes could be included in the $500,000 maximum lifetime exemption. This would help assure that the benefits of the tax measure accrue more to average Canadians and less to individuals who already have substantial capital gains. However, should the $500,000 exemption be eliminated by a future government, homeowners could be left with no protection.

**Impose a tax on imputed rent**

This is not recommended because imputed rent is an esoteric concept, hard to understand and difficult to measure. It would likely not be accepted by Canadians, and its impact is difficult to predict.

The study team recommends to the Task Force that the government maintains the exemption for capital gains on homes.

The study team considers that tax on imputed rent is too difficult to understand and too difficult to measure, to be practical.

## CAPITAL COST ALLOWANCE (CCA)
## SOFT COSTS
## MULTIPLE UNIT RESIDENTIAL BUILDING (MURB)
## Department of Finance

### OBJECTIVES

The basic objective of these tax expenditures is to provide an incentive for the production and maintenance of residential rental buildings by making investment in such projects more attractive and profitable to companies operating in that field.

The MURB program extended this incentive to individual private investors, allowing them to deduct the CCA (and soft costs*) from income other than that produced through their rental investments.

These tax expenditures are aimed at allowing greater cash flow for the investor at the beginning of a rental project, at which time cash returns are limited.

### BENEFICIARIES

Owners and developers of rental properties are the principal beneficiaries, with some benefits being passed on to tenants.

### AUTHORITY

Income Tax Act.

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* "Soft costs" (or first-time costs) are expenditures incurred by the owner of a new rental property which do not relate to the acquisition of fixed assets, that is, land, buildings and equipment. These can be deducted from income from all sources and there is no recapture upon the eventual sale of rental property. There is a long list of acceptable soft costs among which the most significant are: mortgage application and insurance fees, interest charges during construction, legal fees, and property taxes during construction. These costs are deductible from income in the taxation year they are incurred.

**RESOURCES ($ millions)**

| | 78 | 79 | 80 | 81 |
|---|---|---|---|---|
| CCA | 95 | 95 | 95 | 95 |
| | 49 | 61 | 65 | 67 |

**Source:** Estimates by Clayton Research Assoc.

**DESCRIPTION**

These three tax expenditures are closely inter-related. All Principal Business Corporations (PBC's) are normally allowed to depreciate their rental property and to deduct from their income soft costs incurred prior to completion of the construction of buildings. A PBC is defined to be a corporation whose principal business is "the leasing, rental, development or sale, or any combination thereof, of real property". MURB provisions allow much wider application of CCA by permitting CCA and soft costs to be deducted by private investors from other (non-rental) income.

Prior to 1972, all taxpayers were allowed to deduct capital cost allowances for depreciable rental properties from other income for purposes of reducing taxable income. In 1972, a change was effected so that only PBC's and life insurance companies were allowed this tax exemption. Moreover, this tax reform also introduced a new measure requiring any rental property of at least $50,000 capital cost to be established in a separate class for CCA purposes. This effectively eliminated the possibility of deferring the recapture of CCA upon the disposal of rental properties by pooling it with CCA deductions from other properties.

The November 1974 Budget introduced MURBS with a sunset date of December 31, 1975. This Budget also established two classes of rental properties with different rates of CCA: Class 32 Buildings (wood frame), depreciated at 10%; and Class 31 Buildings (steel/concrete) at 5%.

MURB was subsequently extended to 1979, cancelled until October 1980, and reintroduced with a sunset date of December 1981.

## OBSERVATIONS

Regulation 1100 (11) restricts the amount of CCA which can be claimed in the case of rental property to the actual cash income from all rental properties. In other words, CCA cannot be used to create a loss for tax purposes which would be applied to other income. This regulation applies only to individual investors and not to PBC's.

Regulation 1101 (lac) creates a separate class for each rental property costing more than $50,000. This precludes the deferral of recaptured CCA which may arise on the disposition of a rental property in the same taxation year.

Rental property is excluded from the definition of "former business property", which means that the owner cannot defer all or a portion of any recaptured depreciation or capital gains by reinvesting sale proceeds in another similar property.

The following table summarizes the differences in tax treatment for PBC's, MURB investors and other rental investors:

| PBC's | MURB | Other |
|---|---|---|
| CCA 5% | CCA 5% | CCA 5% |
| Loss can be deducted from all income | Loss deducted from all income | Loss deducted from rental income |
| Separate Class | Same as PBC's | Same as PBC's |
| Rental "not previous business property" | Same as PBC's | Same as PBC's |
| Soft costs deducted from all incomes | Same as PBC's | Soft costs capitalized |

An owner of rental housing, other than a PBC or a MURB unit holder, cannot create an induced loss through CCA to offset other income, and no owner can defer or recapture depreciation by acquisition of another property. These regulations tend to discourage investment in rental housing, while such tax concessions are available in other economic sectors.

In spite of these restrictions, CCA as an ongoing program has achieved its objective of inducing the production and maintenance of rental projects.

MURB, which to a certain extent removed these restrictions for private investors, was also effective as a short-term program to stimulate rental projects at the time of supply deficiency and reduced profitability of rental investment. However, the uncertainty created by the "on-again/off-again" decisions of the government has further unsettled the rental development market, already disrupted by provincial rent control programs.

It appears that the rental industry is given more severe treatment under the Income Tax Act than other segments of the Canadian economy. In view of the limited production of rental accommodation occurring in Canada today, this inequity does not seem appropriate.

**OPTIONS**

- Maintain the current tax treatment of rental property.

- Extend the tax concessions for the rental industry in order to stimulate investment.

The study team recommends to the Task Force that after doing a cost estimate, the government consider extending the CCA tax concessions for the rental industry by:

a. Removing the "$50,000 class provision"; and

b. Including rental properties in the definition of "former business property".

In response to the existing rental problem, it is proposed that the feasibility of a tightly-controlled and targeted rental construction tax incentive program be studied. This study should consider, along with the need for such tax incentives, ways in which they might be controlled to serve only those markets with a need for rental investment.

## CARRYING CHARGES ON LAND
## Department of Finance

### OBJECTIVE

The objective of this tax deduction appears to be to reduce the cost of holding land prior to development.

### BENEFICIARIES

The principle beneficiaries of this tax measure are land developers. Benefits may also be passed on to home buyers and tenants.

### AUTHORITY

Income Tax Act.

### RESOURCES ($ millions)

| | 79 | 80 | 81 |
|---|---|---|---|
| Foregone revenue | 35 | 40 | 50 |

### DESCRIPTION

A business that requires holding of inventories for long periods of time is allowed to deduct the carrying charges associated with those inventories from income for tax purposes. These costs are recognized as expenses in the year they are incurred and are not capitalized.

Historically, land developers' interest costs on money borrowed to acquire or develop land, and property taxes in respect of that land, could be deducted from income from other sources for purposes of computing income tax.

In May 1974, this deduction was abolished for the development industry. The reason for this change was that deductability "may be holding back the flow of land for housing" (The Honourable J.N. Turner, Minister of Finance, Budget Speech).

In the November 1978 Budget, the deduction was restored in order to "provide developers an opportunity for planning more projects in Canada."

## OBSERVATIONS

As deductibility of carrying charges on inventories is an acceptable tax measure in all sectors of the economy, its removal for land development would represent a departure from neutrality and equitability in the tax system.

The removal of this deduction would have serious effects on the land development industry, such as:

a. reduction of the cash flow needed to maintain the production of land for housing purposes;

b. reduction in the price developers are willing to bid on raw land in the future, thus decreasing the amount of return on land to farmers and other landholders;

c. reduction in the number of small development firms in preference to larger, well-integrated companies, who can sustain the reduced cash flow;

d. discouragement of coherent, large scale, phased development in favour of a series of small, short-run projects, which would lead to deterioration in the quality of new developments; and

e. reduction in the affordability of final products of the development industry, such as housing.

## OPTIONS

- Remove the tax deduction for carrying charges on land inventories.

- Maintain the deduction.

The study team recommends to the Task Force that the government consider maintaining the deduction for carrying charges on land inventories, because of its importance to a well-functioning land development industry and its consistency with tax deductions for carrying charges to other industries.

# EMPLOYEE HOUSING LOANS
## Department of Finance

### OBJECTIVE

The objective of this income tax measure is to encourage mobility of the work force.

### RESULT/BENEFICIARIES

The number of beneficiaries is unknown. The beneficiaries would be, however, employees who are relocated by their employer or move to take a new job and are offered a housing incentive by the employer. The value of this incentive is exempt from taxes up to a specificed amount.

### AUTHORITY

Income Tax Act; The May 1985 Budget.

### RESOURCES ($ millions)

| | 79 | 80 | 81 | 82 | 83 | 84 | 85 | 86 |
|---|---|---|---|---|---|---|---|---|
| Foregone revenue | 50 | 50 | 50 | N/A | N/A | 0 | 5 | 10 |

### DESCRIPTION

The termination of this program was announced in the 1981 Budget and it was terminated in steps between 1981 and 1983. The May 23, 1985 Budget brought it back with slightly different terms.

Prior to 1981, benefits received by an employee as a result of an interest-free or low-interest housing loan from his employer were exempt from tax where the employee relocated in order to maintain employment or to begin a new job. The maximum annual tax-free benefit was equivalent to the benefit arising from an interest-free loan of $50,000.

The 1985 Budget re-introduced the measure but related the maximum tax-free benefit to a $25,000 interest-free loan, available for the first five years of the loan. The employee's new residence must be at least 40 kilometres closer to the new job than his old residence, and only new loans are eligible.

## OBSERVATIONS

The program likely does contribute in a small way to the objective of facilitating mobility of the work force.

However, the program is badly targeted in that it applies to high-salaried employees as well as those who may really need assistance. Also, it does not appear logical to exempt this particular benefit while taxing most other employer-provided benefits.

The $50 million cost figures given for 1979, 1980 and 1981 are gross estimates and include some items in additioon to housing loans. The Department of Finance expects a phase-in period for this program, and estimates that foregone revenues may eventually reach $50 million per year.

It is doubtful whether the program has any measurable impact on housing markets, except perhaps in a few isolated settlements where the major employer provides such benefits as a matter of policy.

## OPTIONS

Only two alternatives for this tax measure were evaluated: keep it as is or eliminate it. The study team considers there is no reason to exempt this benefit from taxation while continuing to tax most other employer-provided benefits. Further more, the measure is poorly targeted.

The study team recognizes that the measure was just re-introduced in the May, 1985 budget, but nevertheless recommends to the Task Force that the government consider eliminating this provision, when an opportunity to do so arises in the future.

# 5. HOUSING QUALITY

## INTRODUCTION

It would be useful to begin by briefly listing some of the characteristics of housing and the industry that produces it:

a. Housing has direct effects on the health, safety and general well-being of its inhabitants;
b. A house is a large, expensive durable good;
c. A residential building is an interactive system, that is, changes in one part may affect another part;
d. Housing construction is an important economic activity (4% of GNP);
e. Housing is produced by an industry characterized by a large number of small firms (12,500); and
f. Housing is an interest of every government in Canada.

Current and past federal government initiatives to affect the quality of housing have taken three forms:

a. direct financial assistance;
b. regulation; and
c. research, development and demonstration (RD&D).

The study team reviewed 16 federal programs related to housing quality including:

a. Canada Mortgage and Housing Corporation (CMHC) research, development and demonstration programs;
b. Department of Energy, Mines and Resources (EMR) RD&D programs;
c. EMR energy conservation subsidy programs;
d. energy conservation tax expenditures;
e. northern energy subsidies;
f. CMHC inspections and material evaluation programs; and
g. the urea formaldehyde foam insulation (UFFI) homeowner assistance program of the Department of Consumer and Corporate Affairs (CCA).

In addition to program effectiveness, the study team addressed two other major issues:

a. the privatization of CMHC inspection services; and
b. the consolidation of federal building research.

## HOUSING QUALITY INITIATIVES

### Direct Financial Assistance

The government has offered grants and loans to encourage higher levels of certain activities to meet national objectives. Grants were offered by EMR under the Canadian Home Insulation Program (CHIP) to encourage the insulation of existing residences. Similarly, grants were made available under the Canada Oil Substitution Program (COSP) to encourage consumers to replace oil-burning equipment with furnaces using more plentiful types of fuel. Grants and loans were made available under CMHC's Residential Rehabilitation Assistance Program (RRAP) to remedy basic building deficiencies.

CHIP and COSP are being terminated and there is no evidence to suggest a need to reinstate them at this time. RRAP is viewed by the study team as a low-income housing assistance program, and is addressed in the Social Housing Thematic Essay. As a result, no further discussion of financial assistance for housing quality improvement is included in this paper.

### Regulatory Interventions

The rationale for government regulatory activities in the area of housing quality is that Canadians will not tolerate the failure of products with significant health, safety or financial implications. Since housing is expensive, durable and vital to survival in Canada, it is especially subject to these concerns.

The federal government has responded with a variety of regulatory measures, including:

a. the National Building Code (NBC). This is designed to be a model code for all of Canada, specifying minimum building requirements for health and safety.

b. CMHC Residential Standards. These specify qualitative requirements for residential buildings which are in addition to the NBC and include durability and suitability criteria.
c. the National Housing Act (NHA) Lending and Underwriting Criteria. These specify housing quality provisions necessary in all houses financed under the NHA (e.g. insulation levels).
d. Standards. These are performance criteria for building components established by standard writing organizations (SWO's) under the umbrella of the federally-funded Standards Council of Canada.
e. CMHC Materials Evaluation. Reports are published on the ability of building products to meet standards or other performance criteria.

Many of the current issues related to the government's housing quality activities result from conflicting pressures and changing views on its role and responsibilities in this area.

There are those, for example, who in the interest of increasing consumer protection, would elevate the NBC from a conservative specification of minimum health and safety requirements to a comprehensive housing quality code, including such concepts as durability, functionality and livability. Others argue that this would raise the price of housing, reduce demand, decrease construction employment and generally increase government involvement in an area that industry believes is already overly restricted.

Another set of conflicting forces relates to the need for standardization and the will of each government to remain sovereign in its own jurisdiction. A good example is the number of building materials evaluation programs which exist in Canada. Currently there are nine different programs, three federal, four provincial and two municipal, assessing the performance of building materials. If the sponsoring governments could reach agreement, a single national materials evaluation service could replace all nine. This would mean that manufacturers would have to qualify products once instead of nine times. It would also mean a reduction in the time and cost of designing buildings.

Most manufacturers would support the creation of a national materials evaluation service as long as it maintained a strong governmental affiliation (needed to sell products in foreign markets) and incorporated or replaced existing services.

If a national materials evaluation service cannot be created, the study team believes the present CMHC service should be relocated at the National Research Council (NRC) and become a total building materials evaluation service instead of just a service for residential buildings.

Jurisdictional problems occur not only among Canadian governments but also at the international level. Manufacturers sometimes are caught in the effort of Canadian standard writing organizations to establish independence in the world of international standards. This can result in additional costs for the manufacturer, such as the need for multiple product testing if the product is to be both exported and sold domestically.

The Ontario government has recently initiated a building industry development program, a priority of which is the rationalization of regulatory activities. Other aspects of the program include skill and market development. Ontario has indicated a willingness to convert this unilateral initiative into a joint federal/provincial project. This would involve joint priority setting, planning and funding. One of the means it has proposed to implement such a program is the establishment of a National Building Centre.

CMHC inspection services illustrate another example of conflicting perceptions of the federal role. In this case, it is consumers' demand for increased protection from defective products versus government's desire to economize. CMHC inspections, carried out ostensibly to protect the investments made by the Corporation, have also performed a housing quality role. In the early days of NHA financing, the lack of inspection services by other levels of government made CMHC inspections very important instruments for promoting housing quality. Purchasers of NHA housing began to rely on the CMHC inspection as a guarantee of quality. However, provincial and municipal inspection capabilities have matured to the point where most medium- to larger-sized municipalities have an up-to-date inspection service of their own. In these areas, CMHC, in an effort to economize and eliminate duplication, has

reduced the average number of inspections on NHA-financed new housing from five to two. Some new NHA units, in fact, are never inspected by CMHC if the builder has a good reputation. Existing housing is inspected only if it is apparent from the exterior that the unit is likely to have major deficiencies. Reducing the number of inspections has created problems for CMHC. These have occurred when a home buyer has purchased a house with NHA financing, assuming that the inspection had occurred and that the house met NHA requirements, when in fact it did not.

CMHC's response has been to investigate the possibility of privatizing the inspection service. By doing so, it is argued that the legal liability would be shifted and savings made. According to the proposal prepared for CMHC, savings would occur because a private company would be able to expand the business into areas where CMHC is restricted by legislation and so achieve lower per unit inspection costs. This, of course, assumes that there are economies of scale to be realized and that savings would be passed on to CMHC. The study team questions the feasibility of immediate privatization, but sees merit in modifying the CMHC inspection service to determine if the service could be made more profitable, with a view to assessing at a future date the potential for privatization. This modification would require a change in the National Housing Act to permit CMHC to perform inspections for individuals and corporations. In the meantime, the study team believes that CMHC should continue to provide inspection services in areas where municipal capability is inadequate and to continue spot checks in municipalities with mature inspection services. In all inspections that are performed, full conformance to the NBC, Residential Standards and NHA underwriting criteria should be a prerequisite to NHA approval.

## Research, Development and Demonstration

Government technical research, development and demonstration activities in the area of housing are justified on the basis of a single firm's inability to contain the benefits of research it undertakes, that is, other firms would benefit without sharing in the cost. This creates a disincentive for private investment in RD&D and results in a less than optimal level of research that can be corrected only by government expenditures.

Technical housing research at the federal level has traditionally been carried out by CMHC and the Division of Building Research at the NRC. As with regulatory activities, there are conflicting pressures on the research function. On the one hand, NRC, in order to be aware of problems and conduct relevant building research, must be in close contact with the residential building industry. On the other hand, it must maintain a certain distance if it is to preserve its credibility as an independent research agency. NRC has bowed more to the second pressure. CMHC has not been subject to the second pressure to the same degree, as it does not conduct basic research but is more concerned with problem identification and the application of solutions. As a result, CMHC has been able to maintain close contact with the residential building industry.

Two other conflicting pressures are the need to make rapid advances in one area of housing technology in order to achieve national objectives and the need to take a systems approach to housing technology development. A good example is energy. During the energy crisis of the 1970s, EMR, charged with the responsibility of rationalizing Canada's use of energy, saw significant opportunities for reducing fuel consumption in homes by increasing the level of insulation and air sealing. Insulation and air sealing technologies were developed, transferred and promoted; the result was a significant energy saving. It is unlikely that the recorded gains would have occurred had a less single-minded approach been taken. However, serious side-effects have developed in houses which were tightened and more heavily insulated. These have included moisture, air quality and combustion problems. It is argued by some that energy conservation gains made during this period may ultimately be dissipated by the cost of rectifying these problems. Evidence of government's concern over these effects is that the residential technology research plans of EMR, NRC and CMHC are all dominated by efforts to resolve the side-effects of residential energy conservation. This is resulting in a certain amount of research overlap.

While recognizing the vitality that a strongly mission-oriented agency such as EMR exerted in the advancement of residential energy technology, the study team believes that a more comprehensive approach to housing technology research is a better long-run strategy. A consolidation of authority and resources for the conduct of residential technology research would be required.

This would mean the transfer or cancellation of some EMR programs and resources and a leadership role for CMHC, including more control over the residential technology aspects of NRC's research program. NRC would retain responsibility for non-residential building research.

The proposed changes are expected to result in a modest first-round saving of some $12 million. Further gains could be expected in later years.

As mentioned at the outset, all governments in Canada are interested in housing. Consequently, most provinces and some of the larger municipalities have housing research programs. Presently the level of intergovernmental cooperation in the area of housing research (both socio-economic and technical) is low. The study team believes that better use of research resources could be made if more cooperation occurred. CMHC, in a recent paper, has proposed the establishment of a Housing Research Committee to coordinate federal, provincial and industry involvement in housing research. The study team supports this initiative and suggests that one of the tasks of the Committee should be an assessment of the feasibility of creating a National Housing and Building Research Centre, which would incorporate the Ontario proposal for a National Building Centre.

**SUMMARY OF MAIN OPTIONS**

The study team recommends to the Task Force that the government consider the following options:

- Consolidate responsibility for residential building research, development and demonstration at CMHC and non-residential building R&D at NRC.

- Support the CMHC proposal to create a Housing Research Committee to co-ordinate federal, provincial and industry involvement in housing research.

- Transfer residential portions of EMR building energy programs to CMHC and non-residential portions to NRC. This would involve the following EMR programs: Super Energy Efficient Home (SEEH),

Building Energy Technology Transfer Program (BETT), Remote Community Demonstration Program (RCDP), ENERDEMO-ECOS, CHIP, and Northern Residential Standards.

- Defer funding of any additional demonstration homes under the SEEH program until an evaluation of the performance of existing homes has been completed.

- Eliminate planned consumer education and market research and development activities of the CHIP wind-down.

- Reallocate industry grants for solar domestic hot water systems to solar energy research.

- Amend the NHA to permit CMHC to expand inspection services and later evaluate the potential for the service to be privatized.

- Put the CMHC Materials Evaluation Service on a full cost-recovery basis and create a steering group to establish a national service within one year. If this is unsuccessful, the service should be relocated at NRC.

- Establish a sunset date of December 31, 1986 for the completion of work funded under the UFFI Assistance Program.

- Allocate $600,000 to $800,000 over the next two years to CCA to continue UFFI research.

## IMPLICATIONS

### Financial

Consolidating the building research program would save some $12 million a year.

Eliminating the planned consumer education and market research and development expenditures of the CHIP wind-down would save $26.2 million.

Reactivating the UFFI research program would cost $600,000 to $800,000 over two years.

Assigning CMHC the clear responsibility for residential building research would require some additional resources or an internal CMHC reallocation of resources to the building research area.

**Organizational**

The home insulation industry could react negatively to cut-backs in funds that were to help the adjustment to the termination of CHIP grants.

The Canadian Home Builders Association might object to the cancellation of the SEEH demonstration grants.

The solar industry might object to the cancellation of grants for the installation of solar domestic hot water systems.

The Mortgage Insurance Company of Canada might react negatively to a decision not to privatize the CMHC inspection services, as it was a strong proponent of privatization.

The centres of building research which have been supported by the BETT program would probably be apprehensive about a transfer of the program away from EMR.

UFFI homeowners would object to the announcement of a sunset date for the assistance program.

**Legislative**

The NHA would have to be amended to permit CMHC to carry out inspections for individuals and corporations.

## RESEARCH, DEVELOPMENT
## DEMONSTRATION AND INFORMATION
## Canada Mortgage and Housing Corporation

**OBJECTIVES**

The objectives are:

a. to undertake, co-ordinate and support social, economic and technical research on housing;

b. to field test unproven solutions to technical housing problems; and

c. to maintain and disseminate research results.

**BENEFICIARIES**

Beyond the consumers of housing, the construction industry, lending institutions, other jurisdictions with housing responsibilities and housing researchers who receive grants are direct beneficiaries of the program.

**AUTHORITY**

National Housing Act, Part V and CMHC Act, Section 26.

**RESOURCES** **($ millions)**

| | 79 | 80 | 81 | 82 | 83 | 84 |
|---|---|---|---|---|---|---|
| Budgetary expenditures | 12.0 | 8.0 | 12.0 | 10.0 | 11.0 | 8.0 |
| Person-years | 88.2 | 83.4 | 80.4 | 88.8 | 96.6 | 97.2 |

**DESCRIPTION**

The Research, Development, Demonstration and Information planning element is composed of six main activity centres:

a. Planning Division;

b. Program Evaluation Division;

c. Research Division;

d. Project Implementation Division;

e. Statistical Services Division; and

f. Research and Development Support

This review covers the last four activities, omitting the Planning and Program Evaluation Divisions because they are not directly involved in Research, Development, Demonstration and Information as it has been defined for this assessment.

**Research and Development**

Research and development carried out by CMHC falls into two main categories -- directed and non-directed. Directed research projects are those aimed at solving problems or investigating areas which CMHC has identified as priorities. These projects are carried out or managed by CMHC staff.

Directed research in 1985 is divided into four main areas:

a. Housing Industry - To examine the process of adaptation to change by the housing industry;

b. Housing Demand - To assess the implications of mid- and long-term demand for housing and the need for housing assistance in light of projected demographic, economic and social change;

c. Housing Supply - To assess the responsiveness of housing supply to meet changing housing needs; to identify potential new building forms; and to develop tools to assist in housing design optimization; and

d. Housing Performance - Taking a systems approach, to measure the condition and performance of new and existing housing and to develop improvements and better standards for higher levels of health, safety and economic viability in the stock.

Non-directed research projects are investigations proposed by housing researchers and funded by CMHC. The CMHC role in non-directed activities is to review proposals, select projects for funding, monitor the execution of

research and disseminate the findings. Four programs make up the non-directed research activities:

a. External Research Program;
b. Housing Technology Incentive Program;
c. Scholarships Program; and
d. University Support.

Through the External Research Program, CMHC provides grants of up to $20,000 to Canadian housing researchers.

The Housing Technology Incentives Program provides grants to encourage technical innovation to improve housing. The contributions are intended to help small businesses, manufacturers and entrepreneurs with the costs of designing, developing, installing, testing and documenting their proposal. Pamphlets describing the projects are published to disseminate the knowledge gained through the project.

CMHC provides university scholarships to Canadians or landed immigrants to pursue studies at the masters or doctoral level in the social, physical, technical, administrative or legal aspects of housing.

CMHC provides university support for programs in housing research to Mount Allison and the University of Winnipeg.

### Demonstration

The Project Implementation Division carries out projects to test unproven solutions to technical housing problems. In the past, the main client has been CMHC's Research Division. The Division has plans in 1985 to improve the dissemination of research and demonstration results to the building industry.

Examples of demonstration projects include new construction techniques for the North, alternative sheathing products, log houses, passive venting for moisture control, vapour barrier innovations, and field testing of air-to-air heat exchangers.

**Information**

There are two main informational activities -- Statistical Services and the Canadian Housing Information Centre.

The main functions of the Statistical Services Division are:

a. to carry out surveys which monitor housing market conditions (e.g. vacancy rate survey, starts and completions survey);
b. to gather data from CMHC program delivery functions;
c. to conduct special surveys in support of research activities; and
d. to disseminate statistical information (e.g. Canadian Housing Statistics.

The Canadian Housing Information Centre contains final copies of all research projects undertaken or supported by CMHC. In addition, the Centre acts as a library of housing research carried out by others in Canada and in foreign countries.

**OBSERVATIONS**

Housing research is carried out by a number of agencies within the federal government and to a varying extent by all provincial governments and many of the larger municipalities. With research going on in so many places at once, the potential for overlap or duplication is high.

At the federal level, research into the means of conserving energy in buildings and associated side-effects is occurring at three agencies: Energy, Mines and Resources (EMR), CMHC and the Division of Building Research ) at the National Research Council (NRC). Consideration

**OPTIONS**

There is almost an unlimited number of possibilities for coordinating or consolidating housing and building research. The six alternatives that follow are representative of the range of these possibilities:

a. No change;
b. Devolve housing research to the provinces;
c. Consolidate all federal building research at NRC, leaving socio-economic housing research at CMHC;
d. Consolidate technical, residential research and development at CMHC and non-residential building research at NRC;
e. Coordinate research through an Intergovernmental Committee on Housing Research; and
f. Create a new National Housing and Building Research Centre.

**No change**

To support this option it is necessary to believe that the duplication and overlap (mainly in the area of energy conservation), resulting from the present dispersion of housing research activity, either does not occur or is an inevitable by-product of otherwise useful competition in the field. It would deny the proposition that buildings are systems that require systematic research, development and demonstration, if the state of the technology is to be advanced without endangering health or compromising overall building performance.

**Devolve Housing Research to the Provinces**

This option would seem consistent with a total or fairly substantial federal withdrawal from the housing field. Total withdrawal would mean not only the termination of CMHC market and social housing programs, but the abandonment of such activities as the Associate Committee on the National Building Code, which virtually all provincial and industry representatives agree should be continued in its present form and which requires strong technical back-up.

**Consolidate all Federal Building Research at NRC**

This option is meant to address the problem of housing research overlap and duplication at the federal level, mainly in the area of energy conservation. It does not address the need for better federal/provincial cooperation. It would involve the transfer of the building aspects of EMR energy research, development and demonstration programs and all such CMHC technical activities, along with some portion of each agency's resources, to the Division of Building

Research at the National Research Council. CMHC would retain full responsibility for socio-economic housing research.

This option would require that NRC establish a special housing division, which would ensure more input from the housing industry into research priorities, and take a more active role in the area of demonstration and technology transfer.

**Consolidate Residential Building Research and Development at CMHC and Non-Residential Building Research at NRC**

This option is meant to deal with technical research overlap at the federal level and provide a higher priority to residential building research and development. It also recognizes the abilities and limitations of the two prime housing research agencies. NRC, for example, is well equipped to carry out basic research, but lacks the field network and mandate to support the highly disaggregated residential construction industry. CMHC, on the other hand, while unable to match the basic research capabilities of the NRC, does have a core of technical research staff and a Canada-wide delivery system which provides opportunities for communicating directly with the industry to determine problem areas and to transfer solutions.

Under the proposal, the NRC would maintain its overall responsibility for advancing the state of building science. CMHC's role would be to provide specific support to the residential construction industry. One important aspect of this support would be the identification of acute residential building problems and the development and transfer of solutions to the industry. Another role would be the promotion of innovative housing technology. This is a role that CMHC has played in the past, but which has received little priority in recent years. A recommitment to this role on the part of CMHC, including organizational and resource changes, is a prerequisite to the successful implementation of this alternative.

The option would require the transfer of EMR activities and a portion of attendant resources to NRC and CMHC, with the remaining resources representing a budget reduction.

**Coordinate housing research through a National Committee on Housing Research**

CMHC has proposed the establishment of a "Housing Research Committee" with representation from federal and provincial agencies concerned with housing, the industry, and special interest groups. The role of this committee would be coordination of research activities and dissemination of results.

At the federal level, however, the committee approach has not always worked, as the recent experience in the area of energy conservation has demonstrated. When disagreements occurred, the agency with the money was always able to ignore the committee and go its own way. On the other hand, to have given the committee power over spending might have slowed the process unnecessarily.

CMHC is also proposing to commission a study to investigate other options for promoting better housing research cooperation.

**Create a new National Housing and Building Research Centre**

This option involves the establishment of a new organization, which would be funded initially by the federal and provincial governments, and would work toward obtaining industry funding in the future. A board of directors would be established, with representation from both levels of government, the building industry and special interest groups.

The Centre would assume the housing and building research functions of federal and provincial agencies. At the federal level, this would mean the residential components of EMR programs, all socio-economic and technical research activities and the Materials Evaluation function of CMHC, and the Division of Building Research at NRC.

One derivation of this option would be to have the Centre concentrate solely on the technical aspects of building research, perhaps with a separate housing division. Responsibility for socio-economic housing research would remain at CMHC.

The study team recommends to the Task Force that the government consider consolidating residential building research and development at CMHC and non-residential building research at NRC.

CMHC should also proceed to create a Housing Research Committee to coordinate federal, provincial and industry involvement in housing research.

## SUPER ENERGY EFFICIENT HOME (SEEH OR R-2000)
## Energy, Mines and Resources (EMR)

### OBJECTIVES

The principal objective of the program is to support the development of industry knowledge and skills and consumer demand so as to commercialize cost-effective, energy-efficient housing without the need for ongoing government support.

Other objectives of the program are:

a. to transfer knowledge on the techniques of constructing and marketing super energy-efficient houses to as many builders as possible across Canada;
b. to provide incentives for design, construction and demonstration which ultimately could result in 20,000 homes across Canada;
c. to document and monitor the techniques, costs and performance of houses constructed under the program;
d. to increase consumer awareness and acceptance of super energy-efficient homes; and
e. to design and implement an R-2000 Home Identification Program in order to permit builders to identify and market R-2000 homes.

### BENEFICIARIES

Beneficiaries of the program are:

a. the Canadian Home Builders Association (CHBA), through federal contributions to cover the cost of training, co-ordination, inspections and overhead;
b. purchasers of model homes;
c. the building industry through advances in housing design and practices; and
d. contractors by way of building contributions of $5,500 and $1,500 for SEEH program houses.

To September 1984, 299 demonstration houses have been built to the R-2000 standard. There were 33 training courses held with 1,350 participants.

**AUTHORITY**

National Energy Program.

**RESOURCES ($ millions)**

| | 84/85 | 85/86 | 86/87 | 87/88 |
|---|---|---|---|---|
| Salaries | .9 | 1.2 | 1.2 | 1.2 |
| Other O&M | .7 | 1.0 | 1.0 | 1.0 |
| Contracts, Grants & Contributions | 3.0 | 11.0 | 11.6 | 11.6 |
| **TOTAL** | 4.6 | 13.2 | 13.8 | 13.8 |
| Person-years | 24 | 34 | 34 | 34 |

Breakdown of Contracts, Grants and Contributions

| | 84/85 | 85/86 | 86/87 | 87/88 |
|---|---|---|---|---|
| Other New Housing Types | - | 0.2 | 0.3 | 0.8 |
| Research & Technical Development | .6 | 2.0 | 2.2 | 1.8 |
| Monitoring, Standards & Technical Analysis | - | 1.6 | 1.8 | 1.5 |
| Training & Industry Information | .5 | 1.1 | 1.2 | 1.0 |
| Public Information | .4 | 0.5 | 0.5 | 1.0 |
| CHBA-Builder Contributions & Administration | 1.5 | 5.6 | 5.6 | 5.5 |
| **TOTAL** | 3.0 | 11.0 | 11.6 | 11.6 |

**DESCRIPTION**

The Super Energy-Efficient Home program is a joint venture of EMR and the CHBA to construct, in the initial stages, 300 demonstration homes, with the funding supplied by the federal government ($5.6 Million).

The program also includes a very large component for research and development, monitoring, standards, training, consumer awareness and technology transfer ($5.4 Million).

CHBA is responsible for construction training, inspection and monitoring. EMR contracts out most of its research and development and other parts of the program to the following:

a. Ontario Research Foundation;
b. Saskatchewan Research Council;
c. Marbek Resource Consultants;
d. Bureau of Management Consultants;
e. Canadian General Standards Board; and
f. Other consultants.

EMR plans to build in 1985 a further 50 to 150 demonstration homes commencing in September and to develop certification procedures to allow previously trained builders to market R-2000 homes.

The program involves a financial contribution directly to the builder through CHBA of $5,500 for the first house built under the program and $1,500 for the second, beyond which there are no further contributions.

A comprehensive review of the initial 299 houses has commenced but has not been completed. The results are expected by fall of 1985. The review involves costs, monitoring of practices and equipment performance and quality.

The cost of the additional special features required to meet the R-2000 standard for the first 30 units was approximately $7,500 per unit. The latest cost estimate is $5,000 to $6,000 per unit. EMR projects that the ultimate cost in 1988 will be in the range of $3,000 to $4,000 per unit.

The initial 299 units are distributed across Canada and the monitoring is done jointly by CHBA and EMR regional staff.

EMR has played a valuable role in initiating this demonstration program. Because of the fragmented nature of the building industry, it is unlikely that such an initiative would have been undertaken without government intervention.

## OBSERVATIONS

One of the major thrusts of the program is to train as many builders as possible in R-2000 construction and to educate others in the R-2000 concept (designers, architects, real estate agents). To date, the program has reached only small specialty builders (5% of the industry), and it is questionable whether this approach will ever reach large tract builders. The units will have to be cost-effective to succeed without subsidization. With a final overall extra construction cost of $3,000 to $4,000 and with a saving in heating costs of $600 to $700 per year per unit, it would take 10 to 15 years to recoup the additional initial investment, assuming no maintenance costs on installed equipment.

EMR is conducting continuing research on possible problems with the R-2000, particularly air quality, moisture, backdrafting, vapour barrier decay and effects on basements being super-insulated. This research is very similar to other research by CMHC and the National Research Council.

The overall program concept of involving the industry is commendable and the use of external research bodies reduces the need for additional person years in the federal public service.

There is at present no concentrated effort to increase consumer awareness and demand, since EMR has neither completed a detailed review of the initial stage nor resolved the outstanding technical issues.

CHBA in its task force on the SEEH program stressed the following:

> "the program should not be materially accelerated until data is obtained and analyzed from the monitoring of program houses, necessary research is completed and detailed technical issues are resolved".

This is indicative of a concensus that detailed evaluation of the results of the demonstration portion of the program should be completed before embarking on further demonstration and promotion.

## OPTIONS

The study team recommends to the Task Force that the government consider transferring the program to CMHC, and deferring any further demonstration homes until the thorough evaluation and technical investigation of existing houses is completed by EMR. Pending resolution of identified problems, a further 50 demonstration homes might be built using the revised technology in order to confirm the program's effectiveness.

It should be noted that EMR is presently negotiating a three-year agreement with CHBA. In view of the deferral of the demonstration program and its eventual reduction, the funds directed to CHBA should be re-examined and reduced accordingly.

Technical research and development should be transferred to CMHC as part of the housing research activities.

Monitoring, standards and analysis should be transferred to CMHC and be continued.

The study team also recommends to the Task Force that once the technology has been proven, government consider mounting a concerted effort on training, industry information and consumer awareness in cooperation with the private sector. At that point, the program should be cost-effective and will have to compete in the market without subsidies or government involvement.

## BUILDING ENERGY TECHNOLOGY TRANSFER PROGRAM (BETT)
## Energy, Mines and Resources (EMR)

### OBJECTIVE

The objective is to accelerate the development and adoption of energy efficient equipment, materials, techniques and systems in buildings.

### BENEFICIARIES

The beneficiaries of this program are:

a. designers, contractors, and operators of buildings who need to know how to apply the latest energy conservation techniques;
b. building owners, who need to know advantages of various conservation options;
c. manufacturers of building products and equipment, who require design and performance advice;
d. installers of energy conservation products and equipment, who require training; and
e. homeowners who benefit from improved services offered by the building industry.

### AUTHORITY

Authority for BETT activities exists through the Canadian Home Insulation Act and the Oil Substitution and Conservation Act.

### RESOURCES ($ millions)

| | 80/81 | 81/82 | 82/83 | 83/84 | 84/85 | 85/86 - 86/87* |
|---|---|---|---|---|---|---|
| Salaries | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | |
| Other O&M | 0.9 | 1.8 | 2.2 | 2.2 | 3.0 | |
| **TOTAL** | 1.1 | 2.0 | 2.4 | 2.4 | 3.2 | 3.5 |
| Person-Years | 4 | 4 | 4 | 6 | 5 | 8 |

* $3.5 million per year for three years.

DESCRIPTION

The BETT program has two main activities:

a. funding research and development on energy conservation in buildings; and
b. transferring the results of this research and development to the building industry and the general public.

The outputs of the program include research reports, technical manuals, guidelines and handbooks, technical bulletins, seminar packages and training aids.

The program is structured to reflect the major building sectors, and a lead agency is assigned to each sector. A consultant has been hired to coordinate the six lead agencies. The responsibilities of the lead agencies include directing and controlling the work carried out by sub-contractors and compiling information in the specified research area. The lead agencies are advised by representatives of building owners, operators of buildings, manufacturers, professionals and trades active in the relevant sectors.

The Saskatchewan Research Council is responsible for low-rise residential buildings. Technical subjects the Council has investigated include the insulation of walls, ceilings and basements, sealing against air leakage and other work relating to the building shell. Work on mechanical systems,such as heating, ventilation and air conditioning (HVAC) in this sector is being done by the Ontario Research Foundation (ORF).

The ORF is also responsible for BETT work on medium and high-rise residential buildings, including domestic hot water use, boiler plant efficiency, HVAC, automatic controls, lighting, building design and energy-conscious building operation.

Finally, ORF has responsibility for office buildings. Among other things, ORF has looked at means to conserve energy in lighting, boilers and HVAC systems, at ways to control air leakage and at the feasibility of recovering waste energy.

The University of Manitoba's Office of Industrial Research examines ways to reduce energy use in Canadian food-service establishments. So far, the group has examined food preparation equipment, processes and procedures and heat loss in kitchen hood and exhaust systems, and it has produced an energy conservation manual for restaurant owners.

The Centre for Building Studies at Concordia University in Montreal is responsible for the retail sector. The Centre has dealt with matters such as lighting, rooftop HVAC units, energy auditing procedures and the particular conservation techniques applicable to large retail stores.

The Building Engineering Group affiliated with the University of Waterloo through the Waterloo Research Institute is responsible for warehouses. The group has investigated floors and foundations, mechanical and electrical systems and the performance of shipping doors.

**OBSERVATIONS**

The BETT program raises the issue of overlap and duplication. There are three federal agencies involved in building research, development and demonstration - EMR, CMHC and National Research Council (NRC). If one believes that a certain amount of overlap is necessary for the advancement of building science, no changes to the program would be recommended. If, on the other hand, one argues that buildings are systems and building research and development should use a systems approach, alternatives for consolidating this activity should be considered.

## OPTIONS

Four options were considered:

- No change;
- Transfer the program to the provinces;
- Transfer the program to NRC; and
- Transfer the housing portions of the program to CMHC and the non-residential portions to NRC.

The study team recommends to the Task Force that the government consider transferring the housing portions of the program to CMHC, and the non-residential portions to NRC, as part of the proposed consolidation of the research functions.

## NORTHERN RESIDENTIAL STANDARDS
## Energy, Mines and Resources (EMR)

### OBJECTIVE

The objective is to develop an energy-efficient construction guideline for northern and arctic regions, and to recommend its adoption.

### BENEFICIARIES

A draft construction guideline was prepared and approved in October 1984. No further action has been taken since then.

Beneficiaries would include:

a. housing authorities in the northern regions of Canada who could reduce subsidies because of improved energy conservation;
b. homeowners in areas where energy costs are high; and
c. the federal government through reduced subsidies for housing, fuel and electricity.

### AUTHORITY

Treasury Board approval was granted April 23, 1981.

### RESOURCES (\$ thousands)

| | 82/83 | 83/84 | 84/85 | Total |
|---|---|---|---|---|
| Total operating | 100 | 150 | -- | 250 |

The program was terminated on March 31, 1984 and the required \$50,000 to complete this work was to have been absorbed by the Super Energy Efficient Home program (SEEH).

### DESCRIPTION

The output of this program will be an energy-efficient construction guideline for northern and arctic regions which can be applied to federally funded new houses in these areas. The success of the program will be measured by the development and adoption of the guideline. The program involves EMR, CMHC, INAC, and NRC.

## OBSERVATIONS

EMR has stated that "work on this area is temporarily proceeding slowly due to the priority placed on the R-2000 (SEEH) effort". The high costs of energy which this program was designed to address would suggest that it be given greater priority.

The major portion of work to develop the standard has been completed. The remaining schedule and resources are to encourage its implementation. CMHC, because of its involvement with housing standards generally, and with the provision of housing in the North, seems well-suited for this task.

## OPTIONS

The study team recommends to the Task Force that the government consider transferring the responsibility and funding for implementation of this program (approximately $50,000) to CMHC.

## REMOTE COMMUNITY DEMONSTRATION PROGRAM (RCDP)
## Energy, Mines and Resources (EMR)

### OBJECTIVE

The objective of the program is to assist remote communities to identify and adopt energy conservation measures and alternative-to-oil energy sources in order to reduce the use of oil products for the generation of electricity and space heating.

### RESULTS/BENEFICIARIES

Beneficiaries include:

a. residents of remote communities (approximately 196,000 in 400 communities);
b. provincial power corporations; and
c. federal power agencies (Northern Canada Power Commission).

### AUTHORITY

Oil Substitution and Conservation Act.

### RESOURCES

| | ($ millions) | | | | | |
|---|---|---|---|---|---|---|
| | **82/83** | **83/84** | **84/85** | **85/86** | **86/87** | **87/88** |
| Salaries | 0.11 | 0.14 | 0.14 | | | |
| Other O&M | 0.85 | 0.43 | 0.30 | | | |
| Grants & Contributions | | 2.00 | 2.00 | | | |
| **TOTAL** | 0.96 | 2.57 | 2.44 | 1.00 | 4.00 | 4.20 |
| Person-years | 1.8 | 2.5 | 4 | 4 | 4 | 4 |

### DESCRIPTION

The program is not exclusively related to housing, but the main users of energy in these remote communities are residences, specifically for space heating which accounts

for 36% of energy used in remote communities. Approximately 50% of residential space heating is by oil.

The three residential priorities of the program are:

a. improved energy-efficient design of new houses;
b. retrofit of existing homes; and
c. substitution of wood for oil.

The program is managed by the Renewable Energy Division of EMR. The Renewable Energy Division also chairs a National RCDP Advisory Committee which includes representation from Indian and Northern Affairs, the National Research Council (NRC), CMHC and other EMR branches.

Program delivery, entailing promotion, liaison with clients, proposal review and recommendation, study and project monitoring and evaluation and information transfer, is decentralized to EMR's Conservation and Renewable Energy Offices. People from these offices also chair Regional RCDP Advisory Committees which include representation from key federal, provincial and territorial departments and agencies at the regional level.

The program consists of two phases. Phase I, which began in 1982, provided funds for community specific energy option assessment studies. Phase II, commencing in late 1983, provides funding for alternative energy demonstration projects.

Phase I which terminated on March 31, 1985 was available to single communities, groups of communities with common energy options and agencies responsible for or directly interested in remote community energy supply. No remote communities were identified in New Brunswick, Prince Edward Island and Nova Scotia. Seventy-two studies were undertaken.

Phase II is available to private companies with remote communities as part of their operation, as well as all those eligible for Phase I. Phase II will attempt to demonstrate the most practical technologies with the widest scale of applications to remote communities. Approximately 40 demonstration projects are anticipated.

## OBSERVATIONS

The main concern with this program is duplication. The top priority activities for Phase II are:

a. energy-efficient new housing;
b. retrofitting existing houses; and
c. safe, efficient wood stoves.

Research, development and demonstration in these three areas is currently being conducted by EMR, NRC and CMHC. It is not apparent that solutions developed for housing in general, particularly northern housing solutions, would not be usable in communities covered by RCDP.

It would be preferable to have a single agency responsible for residential research, development and demonstration. Resources allocated to RCDP for demonstrations of residential solutions should be transferred to the agency with prime responsibility for developing energy solutions for housing.

## OPTIONS

Four alternatives were considered:

a. No change;
b. Transfer residential building portions of the program to CMHC and non-residential portions to NRC;
c. Transfer both residential and non-residential building portions to NRC; and
d. Transfer all building portions of the program to a new agency which could be created, such as a "National Housing and Building Research Centre".

The study team recommends to the Task Force that the government consider, as part of the proposed consolidation of research activity, the transfer of residential building portions of the program and associated resources to CMHC and non-residential building portions of the program and associated resources to NRC.

ENERDEMO - ECOS
(ENERGY CONSERVATION OIL AND SUBSTITUTION)
Energy, Mines and Resources (EMR)

## OBJECTIVE

The objective of this program is to accelerate the adoption and commercialization of energy conservation and oil substitution technologies.

## BENEFICIARIES

The program is available for use by manufacturers, consultants, researchers, government utilities and non-profit organizations. Participants from all categories, except utilities, are currently involved in the program.

## AUTHORITY

Oil Substitution and Conservation Act.

## RESOURCES ($ millions)

| | 84/85 | 85/86 | 86/87 | 87/88 |
|---|---|---|---|---|
| Salaries | .75 | | | |
| Other O & M | .94 | | | |
| Capital | .10 | | | |
| Grants & Contributions | 4.89 | | | |
| **TOTAL** | 6.68 | 6.00 | 7.00 | 5.10 |
| Person-years | 2 | 2 | 2 | 2 |

## DESCRIPTION

Enerdemo-Ecos is one of the three components of the Enerdemo-Canada program, the other two components being the Enerdemo-Alternative Energy and the Enerdemo-Remote Community Demonstration Program.

The program supports demonstration and technology transfer of energy conservation and oil substitution technologies in all sectors of the economy: residential, commercial, industrial, institutional, transportation, agricultural and governmental. Demonstration proponents

eligible for program contributions include industry, utilities, consultants, associations, colleges and universities, government departments and agencies, and voluntary and non-profit organizations.

Proponents wanting to obtain funding for projects must submit proposals for review to EMR. For accepted projects, EMR will pay a portion of the cost, not normally more than 75%.

To be acceptable a project must:

a. be proven beyond the R&D and proto-type testing stages;
b. have test data and results on energy saved or oil displaced;
c. be or potentially be cost-effective over its life (in market prices) and have test data to confirm;
d. have little or no market acceptance;
e. have significant potential for replication; and
f. be approaching or offer potential for rapid acceleration toward commercialization.

The outputs of the program include:

a. demonstrations;
b. monitoring reports; and
c. information and technology transfer reports and brochures.

For 1984/85, six projects were approved, one of which was a residential project.

For 1985/86, the budget is fully committed to 14 projects, two of which are new residential products and three, with a residential component, are wind-downs from a predecessor program.

EMR is currently consolidating and "reprofiling" a number of programs as part of its National Conservation and Alternative Energy Initiative. While details of the new configuration are not complete, all 20 projects of the Enerdemo-Ecos program will be combined in the new program.

## OBSERVATIONS

There are two issues of concern with respect to the program:

a. Are there cost-effective residential energy conservation innovations that require only demonstration and advertising to become commercial products?

b. Would it be better to include the housing and building demonstration projects in research, development and demonstration programs that deal exclusively with housing or buildings?

It is difficult to envisage a product meeting all the criteria listed above. From the list of projects, it appears that the program is funding products that are less well developed than the criteria specify.

There appears to be duplication and overlap of this program with other EMR residential energy conservation programs and CMHC demonstration programs.

## OPTIONS

Four alternatives for this program are presented:

a. No change;
b. Transfer all building components of the program to the Division of Building Research at the National Research Council;
c. Transfer the residential building portion of the program to CMHC and non-residential portions to NRC; and
d. Transfer all building portions of the program to a newly created "National Housing and Building Research Centre".

The study team recommends to the Task Force that the government consider transferring the residential building portions of this program to CMHC and the non-residential building portions to NRC (DBR), as part of an overall consolidation of housing and building research activities.

## CMHC INSPECTION SERVICES
## Canada Mortgage and Housing Corporation

### OBJECTIVE

The objective is to promote housing quality and protect NHA investments by ensuring that buildings financed through the National Housing Act (NHA) meet the requirements of the National Building Code and Residential Standards.

### BENEFICIARIES

Currently CMHC is permitted by legislation to inspect projects financed under the NHA and other property at the request of other federal departments. In 1984, approximately 250,000 inspections were carried out by the service.

### AUTHORITY

National Housing Act.

### RESOURCES ($ millions)

| | 1982 | 1983 | 1984 |
|---|---|---|---|
| Salaries | 9.98 | 13.47 | 9.20 |
| Other O&M | 3.05 | 4.31 | 3.25 |
| **TOTAL** | 13.03 | 17.78 | 12.45 |
| Person-years | 353 | 492 | 384 |
| **Revenue** | | **($ millions)** | |
| External Clients | 3.55 | 7.57 | 4.70 |

### DESCRIPTION

CMHC inspections are provided by a field organization known as CMHC Technical Services. This group operates as a profit centre, making paper charges for inspections performed in support of CMHC programs and actual charges for inspections done for external clients.

Table I shows the number of inspections completed, by CMHC program, for the last two years.

**TABLE I**
**CMHC INSPECTIONS ON CMHC PROGRAMS BY YEAR**

| Program | 1983 | 1984 |
|---|---|---|
| Mortgage Insurance | 185,748 | 178,067 |
| Social Housing | 22,153 | 29,666 |
| Rural and Native Housing | 7,008 | 6,831 |
| Market Housing | | |
| - CHOSP/CRSP | 96,545 | 5,017 |
| - Residual Lending | - | 1,062 |
| Rehabilitation | 193,029 | 27,507 |
| Asset Administration | 2,423 | 851 |
| Materials Evaluation | 59 | 392 |

In addition to doing inspections, CMHC inspectors carry out the monthly starts and completions survey for the Statistical Services Division. Housing starts are a key economic indicator.

Table II shows the number of inspections completed for external clients in the past 2 years.

**TABLE II**
**CMHC INSPECTIONS FOR EXTERNAL CLIENTS BY YEAR**

| Program | 1983 | 1984 |
|---|---|---|
| Energy Programs (EMR) | 46,942 | 18,908 |
| UFFI Centre (CCA) | 40,165 | 23,295 |
| RRAP Agents | 482 | 336 |
| Warranty Programs | 551 | 1,062 |
| Other (INAC) | 1,350 | 675 |

Table III shows the average cost per inspection by program. Fees charged on paper for CMHC programs do not include corporate overhead. Actual fees charged to external clients do include overhead.

## TABLE III
## AVERAGE COST OF CMHC INSPECTIONS BY TYPE (1984)

| CMHC Programs | Cost per Inspection |
|---|---|
| Mortgage Insurance | $ 47.00 |
| Residual Lending | 51.00 |
| Social Housing | 88.00 |
| Rural and Native Housing | 76.00 |
| Rehabilitation | 71.00 |

| External Clients | Cost per Inspection |
|---|---|
| Energy Programs | $ 83.00 |
| UFFI | 108.00 |
| RRAP Agents | 89.00 |
| Warranty Programs | 64.00 |

### OBSERVATIONS

A proposal has arisen, both within CMHC and externally from the Mortgage Insurance Company of Canada, to privatize CMHC Inspection Services. Many advantages are claimed for this proposal but the main ones are:

a. reduced cost to the government; and
b. avoidance of legal liability for inspections.

Building inspections have long been an important part of CMHC's effort to achieve high quality construction and minimize the risk of its investments. At one time, CMHC inspections were often the only inspections done. In fact, it was CMHC's objective to promote the capability of provincial and municipal governments to provide quality-assurance inspections.

As provinces and municipalities developed their own competent building inspection services, the need for CMHC inspections declined. Recognizing this, CMHC has cut back full-stage inspections (i.e. an inspection following completion of each stage of construction: foundations, framing, insulation, etc.) to spot checks in areas adequately covered by other jurisdictions. Full-stage inspections are now only performed in smaller municipalities, rural areas and in special cases. Except for some exceptional demands (largely for temporary programs such as CHIP and UFFI), this has meant fewer inspections for

CMHC to perform and thus a higher per unit cost of inspections, as overhead has remained constant.

A private sector firm faced with the same problem would probably consider three options:

a. Move out of the business;
b. Increase sales; or
c. Decrease overhead.

CMHC could leave the business, but would still have to purchase inspection services elsewhere if it were to protect its investments and continue to promote higher housing quality. Currently there are few private sources from which to obtain this service, certainly none that has a nation-wide capability.

Moving the CMHC service into the private sector would resolve this problem but would force CMHC to purchase from a monopolist.

According to the proposal which has been put forward, CMHC's ability to increase sales is limited by legislation which does not permit it to provide inspections for private corporations and individuals. A private inspection service would not be subject to this constraint. Another option would be to amend current legislation to permit CMHC to perform inspections for a wider range of clientele.

CMHC could reduce overhead. Recently it established the inspection service as a "profit centre" moving it, in some respects, out of the regular organization. This has meant a separate field organization to manage the program. Moving it back into the fold would eliminate some of this additional overhead. Creating a private organization would most definitely increase overhead, as new offices and equipment would have to be acquired.

CMHC has become concerned about liability aspects of its quality-assurance activities, particularly because of its experience with UFFI. While it is easy to understand why CMHC wants to avoid being sued, it is difficult to see how it can avoid this possibility if it is to continue to take an active role in promoting housing quality.

Currently the cost of providing inspection services to remote areas of the country is assumed to be part of CMHC's responsibilities as the federal housing agency. A private inspection service could be expected neither to provide this service at less than it costs, nor to cover the additional costs of remote inspections from the profits earned on inspections in the larger centres. Thus, privatization would mean a reduction in service or increased inspection costs in some areas of the country. CMHC as a large user of inspection services in remote areas would pay more.

It is apparent that an inspection service of some form is essential to allow CMHC to continue its role in mortage insurance and social housing programs. It is not apparent that a private inspection company could provide an adequate service at equal or less cost to the government.

**OPTIONS**

Three alternatives are presented:

- No change;
- Privatize the CMHC inspection service; and
- Amend the necessary legislation to permit CMHC to provide inspections for individuals and corporations, to operate a full cost-recovery inspection service and assess later the feasibility of privatization.

The study team recommends to the Task Force that the government consider amending the necessary legislation to permit CMHC to provide inspections for individuals and corporations and to operate on a full cost-recovery basis. This would improve profitability in the short run, and allow for a better assessment at some future date of the feasibility of privatization.

## MATERIALS EVALUATION SERVICE
## Canada Mortgage and Housing Corporation

### OBJECTIVE

The objective is to evaluate building materials, products and systems to determine their conformity to standards, building codes and other regulatory criteria, and to publish the results of such evaluations.

### BENEFICIARIES

In 1984, 633 new or revised Evaluation Reports were released. The beneficiaries of the program include manufacturers and distributors of building products; specifiers of building materials, such as designers, architects and engineers; regulatory authorities; consumers; builders; building owners; lenders; and mortgage insurers.

### AUTHORITY

National Housing Act, Section 37(1).

### RESOURCES ($ thousands)

| | 82 | 83 | 84 | 85 |
|---|---|---|---|---|
| O & M | -- | -- | 739 | -- |
| Person-years | 10 | 12 | 12 | 12 |

### DESCRIPTION

CMHC currently operates a residential building materials evaluation service. It arose from a former program called the Materials Acceptance Program, whose purpose was to specify the building products that would be "accepted" for use in projects financed through the National Housing Act.

In 1981, the program was revised to become an evaluation service, that is, the service no longer determined the "acceptability" of products, but evaluated products against existing standards or performance criteria and published the results.

The terms "product evaluation" and "product certification" are sometimes confused. Both services evaluate the product against specified criteria, but the certification process goes further by putting in place a monitoring system to ensure that all units of the certified product meet the criterial(usually a standard). This means that a certification program is generally more expensive than an evaluation program.

An evaluation service is not a substitute for a certification program. Its major benefit is to encourage the use of new and innovative products whose use has little potential to affect the health or safety of the consumer or for which no standard has been written. Where product failure could jeopardize the health and safety of users, a full scale certification program may be warranted.

The program operates in the following manner. The proponent, usually a product manufacturer, submits samples of the product to CMHC and requests that it be evaluated. If CMHC agrees, testing requirements for the evaluation are established (if tests have not already occurred), and the proponent arranges with a CMHC-approved test laboratory to test the product. The laboratory makes test results available to CMHC for publication in the manual of building material evaluation reports.

Reports are valid for one year, but may be renewed if the proponent affirms that the product continues to be in commercial production and reports changes in its manufacture, application or use. The product must remain substantially unchanged. Products for which evaluation reports have been issued are re-evaluated after five years. Periodic monitoring of the field performance of products is conducted, and products which no longer conform to the performance standards of the evaluation report may have their report withdrawn.

Costs of testing are borne by the proponent. Costs of monitoring and producing the evaluation report are borne by CMHC. The Manual of Building Material Evaluation Reports is sold at a fee to users on a subscription basis ($52 annually).

## OBSERVATIONS

In 1979, largely as a result of liability problems caused by the CMHC approval of urea formaldehyde foam insulation (UFFI), CMHC began investigating the possibility of privatizing the program.

Besides the dubious advantage of shifting the legal liability for product evaluations, privatization of the CMHC program raises the possibility of creating a single national building product evaluation service, so that manufacturers would no longer have to obtain multiple evaluations of a single product. Currently there are nine different bodies evaluating building products in Canada: three at the federal level, although one, the Canadian General Standards Board (CGSB) service appears to be moving toward a full scale certification program; four at the provincial level; and two at the municipal level.

CMHC has created a special task force on materials evaluation, with representatives of manufacturers, specifiers, builders, standards organizations and provincial governments. The task force recommended the creation of the single national service. Further survey work by CMHC of a broader range of interests revealed a high level of support for the idea. Perhaps most significant was the support of the Associate Committee on the National Building Code, which saw the service as a logical complement to the National Building Code. Opposition arose from some of the competing organizations (CGSB and the Department of National Defence) and from some manufacturers who feared the imposition of yet another program without the removal of the existing ones. Some manufacturers also have expressed reservations about eliminating the CMHC service because of its recognition in export markets.

Another earlier proposal made by the Canadian Building Officals Association in 1972 was to establish a single service at NRC. This would have permitted the evaluation of all building materials rather than just residential building materials. NRC rejected the proposal because it did not want to become involved in the evaluation of proprietary products.

In general, the proposal has been viewed positively. The reason it has not been implemented is the existence of an already reasonably well-operating national system, the

CMHC Materials Evaluation Program. Morever, the existing evaluation service is free to manufacturers, whereas the proposed service would charge to have evaluations performed and renewed, as well as increasing the price for published reports.

In summary, there does not appear to be sufficient incentive for the users of the current system to push for its change.

**OPTIONS**

- **No change** There is already a reasonably well-operating system, although it provides a free service to those able to pay, and there is duplication among various services.

- **Implement full cost recovery** thereby promoting the user-pay principle and removing one disincentive for users to move to a new national system. However, this would result in continued duplication.

- **Create a national service** immediately and transfer the CMHC service to it. This option also promotes the user-pay principle and creates an incentive to phase out the other services. However, the other services might remain in operation, particularly since no agreement on cost-sharing such a service has been established.

- **Create a steering group** to establish a new service. This group would be charged with responsibility for obtaining an agreement to phase out the other services and establish a cost-sharing arrangement. In the interim, the CMHC service would continue to be operated and would be transferred only after agreements had been reached. If agreements on removal of duplication and cost-sharing could not be reached, the CMHC service would continue and the steering group would be dissolved.

- **Transfer the CMHC service** to the Divison of Building Research at the National Research Council. This would have the advantage of allowing the service to evaluate building materials for all types of buildings rather than being restricted to residential buildings.

The study team recommends to the Task Force that the government consider:

- Putting the CMHC service on a full cost-recovery basis, beginning with an increase in subscription fees and then charging manufacturers for the evaluation service.

- Establishing a steering group with a one year mandate to reach agreement with provinces to create a single national service. If no agreement is reached, dissolve the steering group and transfer the CMHC program to the Division of Building Research at NRC.

## CANADIAN HOME INSULATION PROGRAM (CHIP)
## Energy, Mines and Resources (EMR)

**Note** The program is to be terminated March 31, 1986

### OBJECTIVES

The objectives of the program are:

a. to save energy by upgrading the thermal efficiency of the existing housing stock; and
b. to ensure high-quality workmanship and enduring energy savings in home retrofit.

### BENEFICIARIES

CHIP is available to owners or occupants of residential dwellings of three stories or less. A total of 2,562,068 households received CHIP grants for various degrees of work out of 7,292,025 eligible units. Penetration rates were from a high of 92% in Nova Scotia to a low of 22% in the Territories. There was an equal distribution across income levels of households which received the grants.

### AUTHORITY

The Canadian Home Insulation Program Act.

For CHIP in Prince Edward Island and Nova Scotia, statutory authority is provided by the Oil Substitution and Conservation Act, Section 7.

### RESOURCES ($ millions)

| | 79/80 | 80/81 | 81/82 | 82/83 | 83/84 | 84/85 | 85/86 |
|---|---|---|---|---|---|---|---|
| Non Salary O&M | | | 8.2 | 11.6 | 10.6 | 18.0 | 10.5 |
| Grants & Contributions | 165.5 | 176.3 | 130.1 | 224.5 | 53.2 | 132.9 | 63.0* to 84.0 |
| | 165.5 | 176.3 | 138.3 | 236.1 | 63.8 | 150.9 | 73.5 to 94.5 |

| | |
|---|---|
| Person-years (CHIP Delivery) | 201 - CMHC<br>4 - EMR |
| Person-years - Home Energy Programs Division (Research and public relations, partially related to CHIP) | 40 - EMR |

* estimated range provided by EMR.

**DESCRIPTION**

CHIP contributes one third of the cost of labour and eligible materials for insulating attics, walls, and basements and for weather-stripping and caulking. The maximum contribution is $500 for single family dwellings with lesser amounts for apartments. To be eligible, labour must be performed by a Canadian General Standards Board (CGSB) listed contractor.

CHIP is delivered by the Canada Mortgage and Housing Corporation (CMHC) through a central management and application processing centre in Montreal. Each province is serviced by a regional office where program information and consumer inquiries can be made.

The Home Insulation Program, a predecessor to CHIP, and CHIP have both been delivered since their inception by CMHC. On April 1, 1981, full responsibility for finance, policy, promotion and monitoring was transferred to EMR. CMHC continued, under contract to EMR, to process applications, issue cheques, provide inspection services for both quality and compliance control and provide EMR with management information.

Programs of research, technology transfer, industry support and education and quality assurance are managed by EMR in conjunction with CHIP.

In 1983/84, CHIP developed and implemented a new quality and program compliance assurance system. It includes a new sampling plan under which inspections may be directed towards problem contractors, specific types of work and regions of the country. It produces reports that allow EMR, CMHC and CGSB managers to review program performance. All inspectors doing CHIP work now are trained and tested to the CGSB standard. Various inter-agency management

committees have been created to oversee the performance of the program through the quality assurance system.

Eligibility dates have changed a number of times to extend coverage to newer buildings.

**OBSERVATIONS**

The program did not meet its objectives in two respects:

a. The program only accomplished in most cases attic insulation and not more comprehensive sealing and insulating.
b. Low market penetration of approximately 33% was accomplished, with the exception of Prince Edward Island and Nova Scotia.

Throughout CHIP's duration, the program has been plagued with various problems. There was no existing industry to start with, but the program created one which until recently was poorly regulated and trained. There were no established standards and codes, which contributed to shoddy installation. The design of the program encouraged the formation of "fast buck" contractors who did the simplest fix - attic insulation. There were also incidents of fraud resulting in conviction of some contractors.

The initial funding formula was generous, giving contributions for the total cost of materials and one third of the labour costs. As a result, the average contribution was $409 per project. The program has changed with respect to cost-sharing over the years, to the point where it now covers only one third of total labour and material costs. Throughout, the maximum grant stayed at $500.

As a result of problems in the program, guidelines and standards for contractors, price guidelines and insulation guidelines were implemented in November 1981 and November 1982.

Technical research is continuing in the areas of installation methods, standards and contractor training. EMR has recently obtained approval to budget $8.8 million over the next three years for technology development/transfer and an additional $5.5 million over the next three years for research.

EMR also received approval to budget for $14.1 million over three years for consumer education and $12.1 million over three years for market research/development. The main purpose of this funding is to increase consumer awareness and generate markets for CHIP contractors who will face a crisis when CHIP terminates on March 31, 1986.

There are no firm projections of the effect the change in the grant structure implemented in 1985 will have on the number of applications, but it is anticipated that activity should decline from that experienced with previous levels of funding. Some contractors will undoubtedly go out of business in 1985/86. A further large group will cease business in 1986/87, when there are no further grants. There should still be contractors in the retrofitting business in the future if good marketing, training and research are done.

EMR is presently conducting negotiations with the provinces with respect to assuming the consumer marketing function. There does not appear to be much interest by the provinces in absorbing the technology development aspect. There is a need for standards and certification which properly should be the role of the federal government.

**OPTIONS**

The study team recommends to the Task Force that the government consider the following:

- The phasing out of CHIP should continue.
- Responsibility for research, technology development and transfer and the approved resources ($14.3 million) should be transferred to CMHC as part of the consolidation of housing research activity.
- Eliminate the $14.1 million allocated by EMR for consumer education and the $12.1 million for market research and development. These should be the responsibility of the industry.

## SOLAR DOMESTIC HOT WATER (DHW) DEMONSTRATION PROGRAM
## Energy, Mines and Resources (EMR)

### OBJECTIVE

The objective is to sustain the Canadian solar industry until its domestic hot water systems are cost-effective.

### BENEFICIARIES

The program has three main groups of beneficiaries:

a. solar DHW system manufacturers (15);
b. system installers (approximately 1,000 concentrated in Ontario and Quebec); and
c. homeowners (approximately 2,600, concentrated in Ontario and Quebec, have such systems).

### AUTHORITY

Oil Substitution and Conservation Act, Chapter 59, Section 5.

### RESOURCES ($ millions)

| | 83/84 | 84/85 | 85/86 | 86/87 | 87/88 |
|---|---|---|---|---|---|
| Salaries | 0.08 | 0.10 | | | |
| Other O&M | 0.25 | 0.40 | | | |
| Grants & Contributions | 2.20 | 3.00 | | | |
| **TOTAL** | 2.53 | 3.50 | 4.34 | 3.72 | 3.10 |
| Person-years | 2.0 | 2.75 | 2.75 | 2.75 | 2.75 |

### DESCRIPTION

The Solar Domestic Hot Water Demonstration program is one part of a three-part program to support development of active solar equipment. This component provides a contribution of up to $1,400 for each active solar DHW system installed. A system consists of two to three heat collectors mounted on the roof of a house, a storage tank in

the basement, a pump, controls and associated plumbing. The actual contribution depends on the efficiency of the system.

The second part of the overall program provides a similar contribution to systems installed for commercial or industrial uses (1984/85 funding is $1.5 million). The third part provides up to 75% of the cost of unique or untried applications of solar energy (1984/84 funding is $0.5 million).

The DHW grant is provided directly to a company which has sold and installed, or arranged to have installed, the active solar system.

The amount of the grant is scheduled to decrease from $1,100-$1,400 per system currently to $300-$500 per system by January 1, 1988, in order to encourage the development of more cost-effective systems.

Approximately 2,600 systems have been installed to date. The program administrators estimate that 12,000 systems will have been installed by March 31, 1988.

Monitoring of a sample of domestic installations will be carried out by an independent contractor. Feedback from the monitoring system will be provided to manufacturers and installers.

OBSERVATIONS

The main issue associated with this program is the cost effectiveness of the system. The program administrators estimate that without the grant, a typical system would take approximately 20 years to pay for itself. With the grant, the system is estimated to have a 10-year pay-back period. Given that the systems are expected to last only 10 to 20 years, subsidization of this technology is of questionable benefit.

The subsidies could be justified if:

a. energy prices were expected to increase more rapidly than the cost of solar systems; or
b. increased production of solar systems reduced the unit costs to the point where systems were cost-effective.

If either of these conditions are foreseen, the grant could be regarded as the maintenance of an infant industry to the point where its product would make economic sense without the subsidy.

For the current generation of solar systems to make sense, electricity prices would have to rise 50%. Gas prices would have to rise 100%. It should be noted, however, that current systems would be competitive if electricity were priced on the basis of the cost of newly-generated power.

It is estimated that even large production runs would reduce cost by less than 25%, leaving the current products uneconomical without grants.

**OPTIONS**

Three alternatives were considered:

- No change;
- Transfer industry grants to solar research and development; and
- Eliminate industry grants for solar domestic hot water systems.

The study team recommends to the Task Force that the government consider discontinuing industry grants and resources directed to solar research and development. If grants are seen as desirable for interim maintenance of the industry, they should be provided from a more appropriate source, such as the Department of Regional Industrial Expansion.

## CANADA OIL SUBSTITUTION PROGRAM (COSP)
## Energy, Mines and Resources (EMR)

**Note** This program was cancelled effective March 31, 1985 by the November 1984 federal economic statement.

### OBJECTIVES

The objective of the program is to encourage off-oil conversions to appropriate energy sources.

The original target was to convert 1,900,000 units from oil heating to other energy sources and also to undertake an additional 81,300 conservation projects where conversion to alternate fuels was not feasible. The program was scheduled to be in effect from October 28, 1980 to December 31, 1990. The objective for 1984/85 was to convert or insulate 265,000 units.

### BENEFICIARES

There were 992,161 households and 25,372 businesses which received grants under the program. There are no figures readily available that relate to income categories. Other beneficiaries include equipment manufacturers, installation companies and utilities through increased sales of alternate heating supplies

Objectives were attained, considering that the program was to continue until 1990. Approximately 50% of the conversions were completed by March 31, 1985 which was halfway through the program.

### AUTHORITY

The Oil Substitution and Conservation Act.

Statutory authority for the March 31, 1985 termination of COSP will be provided by Bill C-24, which is at present before the House of Commons.

**RESOURCES ($ millions)**

| | 81/82 | 82/83 | 83/84 | 84/85 | 85/86 |
|---|---|---|---|---|---|
| Salaries | 0.2 | 0.4 | 0.3 | 0.4 | 1.0 |
| Other O&M | 4.5 | 8.1 | 3.9 | 3.9 | 8.9 |
| Grants & Contributions | 131.5 | 151.8 | 155.4 | 167.6 | 72.0 |
| **TOTAL** | 136.2 | 160.3 | 159.6 | 171.9 | 81.9 |
| Person-years | 7 | 16.6 | 14.0 | 14.0 | 22.0 |

**DESCRIPTION**

COSP is a conversion assistance program providing taxable contributions toward the capital cost of converting heating systems from oil to alternative energy sources.

The basic grant is one-half of the eligible cost of materials and labour for conversion of oil-fired space-heating and water-heating units to a maximum of $800 per residential unit. Residential buildings with two or more units are eligible for a variable grant to a maximum of $5,500.

The program is open to individuals or corporations who convert from oil to an eligible non-oil energy source. Eligible applicants include businesses, homeowners, (including tenants who have the owner's written permission to undertake a conversion), churches, public libraries, schools, hospitals and homes for the aged.

For a conversion to be eligible, it must have occurred on or after October 28, 1980 and on or before March 31, 1985.

Grants are also available for energy conservation measures carried out in homes and business places heated by oil or electricity in those regions of the country where there is a lack of alternative fuels (Newfoundland, Prince Edward Island, and the Yukon and Northwest Territories).

Delivery of the program conversions to natural gas and electricity was done by 35 utilities who provided applicants with advice and assistance and verified applications. EMR regional offices were responsible for conversions to

propane, renewable energy resources, mainly wood and coal, and for grants dealing with energy conservation.

**OBSERVATIONS**

The portion of the program delivered by the 35 utilities was very efficient. The utilities received $18 per application up to 3,000 and $12 per application for the remainder. There was a quick turnaround and very simple application procedures.

The program advanced the design and certification of high-efficiency oil furnaces and the testing and certification of wood burning equipment.

A defect of the program was that no consideration was given to the possibility that a lot of the program recipients would have had to replace their heating units due to age or would have done so because of the cost advantages of conversion.

When it was announced in November, 1984 that the program was to terminate March 31, 1985, EMR had budgeted $35 million for the remaining period; but, as a result of the timing and the fact there was no change in the contribution rate, a large number of applications were processed. The overall effect was that EMR's payments for that period increased to $80 million.

The program worked well mainly because standards and codes were in place and there was a good private sector delivery system. A new industry was not created but an existing one expanded.

**OPTIONS**

There is no reason to reinstate the program as a majority of the people who would have taken advantage of it have done so and no further stimulus is necessary to promote conversion.

## UREA FORMALDEHYDE FOAM INSULATION (UFFI) ASSISTANCE PROGRAM
## Consumer and Corporate Affairs (CCA)

### OBJECTIVE

The objective of this program is to provide technical information and financial assistance of up to $5,000 as a tax free contribution to owners of homes insulated with urea formaldehyde foam insulation, and to co-ordinate the federal government's other initiatives to solve UFFI-related problems.

### BENEFICIARIES

It is estimated that 80,000 to 100,000 Canadian homes were insulated with UFFI before the product was banned. By March 1985, 56,684 homeowners have registered to use the program and over 40,000 have completed corrective measures. Other organizations such as churches and non-profit housing groups have been direct beneficiaries, and as of March 1985, 486 of these have benefited from the program.

Indirect beneficiaries have been the installation contractors associated with the program and insulation manufacturers.

### AUTHORITY

Urea Formaldehyde Insulation Act, October 1982.

### RESOURCES ($ millions)

| | 83/84 | 84/85 | 85/86 | 86/87 |
|---|---|---|---|---|
| Salaries | 6.2 | 5.2 | 3.4 | 0.5 |
| O&M | 12.1 | 6.3 | 3.4 | 0.5 |
| Contributions | 119.1 | 53.0 | 62.5 | - |
| **TOTAL** | 137.4 | 64.5 | 69.3* | 1.0* |
| Person-years | 227 | 182.5 | 120 | 14 |

* Based on sunset date of January 15, 1986. (Extension of the sunset date would not affect the total funding required.)

## DESCRIPTION

The UFFI Assistance Program was initiated because of concern for the health of inhabitants of UFFI homes.

Payments for corrective measures, as well as technical advice and assistance, are provided to homeowners. A UFFI Centre was established in June 1981 to provide technical and financial assistance. Corrective measures are carried out by registered contractors in accordance with UFFI Centre specifications.

It was necessary to register in order to qualify for the program. Registration was closed September 30, 1983 after wide publicity.

Originally, it was hoped to apply corrective measures to buildings without removing the UFFI. This was to be accomplished by sealing and/or partial removal to reduce the gas level. Because of owner preference, the main practice has been total removal of the material. As a result, the average payment under the program has been $4,772.

Research on the UFFI problem was carried out by the National Research Council (NRC) and also to some extent by Agriculture Canada.

## OBSERVATIONS

This program addresses a problem which arose as the National Energy Program heightened public awareness of energy conservation and particularly the need for improvements to insulation levels. Funds were made available through the Canadian Home Insulation Program (CHIP) to reinsulate homes, and UFFI appeared on an approved list of materials. A new industry developed, which was poorly regulated and subsequently created problems for government because of a lack of standards and proper procedures.

There is a very active and well organized lobby group petitioning to change the assistance plan by increasing the contribution, opening the registration and expanding the eligibility to larger buildings. There is a class action suit being processed through the Quebec Courts by this group. The group consists of owners who are registered in the program but have not proceeded with their applications because they disagree with the structure of the program.

Seventy per cent of registered homeowners have now completed work, with the result that the amount of activity is declining. It is becoming increasingly difficult to retain an adequate force of trained contractors.

A sunset date for completion of work was orginally contemplated for January 1986, but presently there is no firm date. As a result, there is no pressure on the remaining 12,500 homeowners to take advantage of the program.

The number of ongoing applications has declined to the point where those being processed are just sufficient to utilize the present staff of 120 person-years. If activity drops further, it will be necessary to cut into the core staff. Therefore, the effectiveness of this group becomes more questionable as qualified personnel, unsure of their future, will leave and will be impossible to replace.

Research related to UFFI is presently in disarray, mainly because of budget cuts at NRC. A study was underway to examine the effects of UFFI in conjunction with indoor air quality generally. Further research was to have been conducted into the issue of off-gasing and particles in the living space, but it has been curtailed. NRC and Agriculture Canada were investigating the problem of fungus growth on UFFI material and its possible effect on air quality, but more effort and funding are required to complete this work.

At present, there is insufficient evidence to draw conclusions on the possible health effects of UFFI emissions.

**OPTIONS**

The study team recommends to the Task Force that the government consider introducing a sunset date of December 31, 1986 for this program, which would give ample time for the remaining registered homeowners to complete work. This would ensure that the work to be completed is concentrated in a specified period of time, thus making the most efficient use of staff in the UFFI Centre. This would also ensure sufficient work to qualified contractors to allow them to stay in business for the remainder of the program.

Research should be completed on UFFI, including the question of fungus growth, as a high priority by NRC. This might allay fears generated by the media and UFFI interest groups, and also help in addressing the liability question. This would require a $600,000 to $800,000 allocation to CCA over the next two years.

The program should not be otherwise changed as this might create pressure from previous users to receive any new benefits and could also raise legal issues of eligibility.

HOME HEATING OIL SUBSIDY PROGRAM (HHOSP)
Indian and Northern Affairs Canada (INAC)

## OBJECTIVE

The objective of this program is to make more equitable provision of heating subsidies in the Yukon and Northwest Territories (NWT).

## BENEFICIARIES

The program is directed to private households outside Whitehorse in the Yukon, and outside Yellowknife in the Northwest Territories, who rent or own their own homes and are not eligible for any other heating subsidy. The program provided grants to 182 recipients in 1984.

## AUTHORITY

Department of Indian Affairs and Northern Development Act.

## RESOURCES ($ thousands)

| | 80/81 | 81/82 | 82/83 | 83/84 | 84/85 | 85/86 |
|---|---|---|---|---|---|---|
| Salaries | 2.4 | 2.6 | 2.7 | 2.8 | 3.2 | 3.4 |
| Grants & Contributions | 39.7 | 61.2 | 37.4 | 35.3 | 39.2 | 100.0 |
| **TOTAL** | 42.1 | 63.8 | 40.1 | 38.1 | 42.4 | 103.4 |
| Person-years | .1 | .1 | .1 | .1 | .1 | .1 |

## DESCRIPTION

Heating a home in the arctic and sub-arctic regions, where the program applies, requires two or three times the amount of fuel it takes to heat a similar home in southern Canada. The cost of the most common heating fuel (oil) is

also much higher due to transportation and storage costs. Oil is delivered by ocean tanker in the summer months and stored until needed.

Most residents of these remote communities live in subsidized public housing, federal and territorial staff housing or subsidized housing of crown corporations. These households pay only a fraction, if any portion at all, of the cost of heating fuel they use.

Private households living in remote communities, on the other hand, must pay the full price of heating oil. The HHOSP's were introduced in 1980 to provide a measure of equity in the subsidization of heating oil costs in remote communities. Grants reduce the cost of fuel oil (up to 1,500 gallons) to the Yellowknife or Whitehorse price.

The programs are administered by the territorial governments, to whom potential recipients must apply for assistance. The territorial government assesses the eligibility of the applicant, the amount of the subsidy entitlement, and issues a cheque to the applicant. The territorial government then submits an invoice to INAC for the total of all claims paid plus a 6.5% administration fee.

**OBSERVATIONS**

This is not a large or costly program. In 1984, only 25 households in the Northwest Territories and 157 in the Yukon received the grant. Relative to other energy subsidy programs in the North it is insignificant, representing 0.05% of total energy subsidies in the NWT and 0.4% of total energy subsidies in the Yukon. It seems to be a small price to pay for inserting a degree of equity into a complex system of northern energy subsidies. The Home Heating Oil Subsidy Program is being considered as part of the current overall review of northern energy subsidies.

The key issues to be addressed are:

a. the quality of northern housing which in most cases is very energy inefficient; and
b. the disincentives offered by the current subsidy programs ($45 million in 1984/85) for conserving energy.

**OPTION**

The study team recommends to the Task Force that the government consider that the program should be continued as is, until the review of northern energy subsidies is complete and the Government has a revised energy policy for the North.

## EXEMPTION FOR ENERGY CONSERVATION GOODS AND INSULATING MATERIALS
## Department of Finance

### OBJECTIVE

The objective is to promote energy conservation by lowering the price of insulation materials and heat recovery units.

### BENEFICIARIES

Any individual or company constructing residential or commercial buildings, would benefit from this tax exemption.

### AUTHORITY

Excise Tax Act.

### RESOURCES

Estimates of the cost of this tax preference are as follows:

| | ($ millions) | | | | | |
|---|---|---|---|---|---|---|
| | 81 | 82 | 83 | 84 | 85 | 86 |
| Tax expenditure* | 40 | 45 | 50 | 50 | 50 | 50 |

* Estimates for 1981 to 1984 were obtained from the Department of Finance and assumed that without an exemption, the tax rate for conservation goods would be 9% and insulation materials 5%. Estimates for 1985 and 1986 are based on the May 1985 budget.

### DESCRIPTION

This program provided a total tax exemption for insulation materials used for wall cavities and roofs of buildings, thermal insulation used for heating and cooling systems and certain heat recovery units, such as air-to-air heat exchangers and heat pumps.

As a result of the May 1985 Budget, these items will now be taxed like all other building materials at 6% in 1985 and increasing to 7% on January 1, 1986. All other non-exempt items are presently taxed at 10%, increasing to 11% in 1986.

## OBSERVATIONS

The tax treatment of building materials affects residential construction and changes the cost of a house built to present standards.

For a $100,000 house using approximately $1,800 worth of insulation, the estimated additional cost after the 1985 budget is $100. Therefore, the effect of reducing the level of the tax exemption is to raise the cost of this house approximately 0.1%.

## OPTIONS

Three options were considered:

- Return to a total tax exemption for these goods;
- Tax them like other building materials (6%); and
- Tax them like all non-exempt goods (10%).

The study team recommends to the Task Force that the government consider that because special incentives for energy conservation are no longer required, the tax treatment of energy conservation goods and insulation materials should continue to be the same as for other building materials.

## EXEMPTION OF HOME HEATING FUELS AND ELECTRICITY
Department of Finance

### OBJECTIVE

The objective is to reduce the cost of essential residential utilities.

### BENEFICIARIES

Beneficiaries are all people across Canada who use heating fuels and electricity, including renters and homeowners.

### AUTHORITY

Excise Tax Act.

### RESOURCES

The tax expenditures, based on estimates of the Department of Finance, are as follows:

| | ($ millions) | | |
|---|---|---|---|
| | 81 | 82 | 83 |
| Tax expenditure | 470 | 570 | 590 |

### DESCRIPTION

Home heating fuels and electricity purchased by consumers are exempt from federal sales tax.

### OBSERVATIONS

Home heating fuel and electricity are necessities used by virtually all households in Canada. There are wide variances in the prices of both electricity and heating fuels with the more costly areas being the Atlantic provinces and the Territories.

Home heating fuels (oil and gas) are already taxed at source.

**OPTION**

The study team recommends to the Task Force that the government consider maintaining this tax provision.

## EXEMPTION FOR CANADIAN HOME INSULATION PROGRAM (CHIP) GRANTS IN PRINCE EDWARD ISLAND (P.E.I.) AND NOVA SCOTIA (N.S.)
## Department of Finance

**Note** This program was terminated in December 1981.

**OBJECTIVE**

Because of the high energy costs in these two provinces, a tax exemption for CHIP grants was implemented to encourage energy conservation and relieve demand for imported oil.

**BENEFICIARIES**

The CHIP program combined with the tax exemption has achieved penetration rates in P.E.I. and N.S. of 90% and 92% respectively. The effect on imported oil use is not known.

**AUTHORITY**

Income Tax Act.

**RESOURCES**

Estimated revenue foregone is less than $5 million.

**DESCRIPTION**

Until December 1981, individuals in P.E.I. and N.S. were eligible for non-taxable home insulation grants of up to $500.

**OBSERVATIONS**

The combined program of tax exemptions and CHIP grants obtained very high penetration rates.

**OPTIONS**

There is no reason to consider re-implementing this tax concession as no further insulation incentive is now required.

## 6. APPENDICES

ACTIVITY BY PROVINCE FOR SELECTED FEDERAL HOUSING PROGRAMS (IN UNITS)

| SOCIAL HOUSING PROGRAMS | NFLD/ LAB | PEI | NS | NB | QUE. | ONT. | MAN. | SASK. | ALTA. | BC | YUK. | NWT | 1984 SUB TOTAL | TOTAL STOCK |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| . 56.1 PUBLIC NON-PROFIT | | | | | | | | | | | | | | |
| TOTALS 1984 | 55 | 132 | 19 | 131 | 2,775 | 1,441 | 554 | 272 | 714 | 217 | - | - | 6,310 | |
| TOTAL STOCK | 259 | 268 | 785 | 191 | 21,319 | 9,123 | 831 | 3,592 | 3,070 | 2,779 | 48 | - | | 42,265 |
| . 56.1 PRIVATE NON-PROFIT | | | | | | | | | | | | | | |
| TOTALS 1984 | 182 | 41 | 130 | 438 | 1,175 | 3,008 | 300 | 247 | 68 | 959 | - | - | 6,548 | |
| TOTAL STOCK | 1,294 | 299 | 917 | 2,613 | 13,702 | 18,465 | 3,696 | 1,098 | 1,401 | 9,133 | 10 | 10 | | 52,638 |
| . 56.1 COOPERATIVE | | | | | | | | | | | | | | |
| TOTALS 1984 | - | - | 183 | 64 | 1,167 | 1,491 | 47 | 80 | 77 | 768 | - | - | 3,877 | |
| TOTAL STOCK | 388 | 25 | 1,171 | 427 | 6,989 | 10,972 | 158 | 461 | 1,173 | 7,009 | - | 70 | | 28,843 |
| T SUPPLEMENT | | | | | | | | | | | | | | |
| 'ALS 1984 | - | - | - | 20 | 136 | 39 | - | - | - | 21 | 15 | - | 931 | |
| 'AL STOCK | 705 | 317 | - | 1,404 | 3,693 | 20,322 | 1,798 | 271 | 205 | 8,114 | 61 | 36 | | 35,904 |
| 3LIC HOUSING | | | | | | | | | | | | | | |
| 'ALS 1984 | 140 | 60 | 321 | - | - | - | - | 370 | - | - | - | 379 | 1,270 | |
| 'AL STOCK | 4,572 | 875 | 9,730 | 4,000 | 19,077 | 96,837 | 12,865 | 12,168 | 16,901 | 7,865 | 273 | 3,075 | | 205,288 |

ACTIVITY BY PROVINCE FOR SELECTED FEDERAL HOUSING PROGRAMS (IN UNITS)

| IABILITATION PROGRAMS | NFLD/ LAB. | PEI | NS | NB | QUE. | ONT. | MAN. | SASK. | ALTA. | BC | YUK. | NWT | 1984 SUB TOTAL | TOTAL STOCK |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AN HOMEOWNER RRAP | | | | | | | | | | | | | | |
| TOTALS 1984 | 678 | 91 | 1,180 | 868 | 1,554 | 1,886 | 1,013 | 839 | 1,079 | 2,332 | 7 | - | 11,527 | |
| TOTAL STOCK | 3,883 | 3,018 | 10,010 | 4,235 | 7,654 | 12,741 | 3,936 | 10,912 | 8,978 | 16,877 | 8 | - | | 82,252 |
| AN RENTAL RRAP | | | | | | | | | | | | | | |
| TOTALS 1984 | 422 | 179 | 660 | 705 | 3,991 | 2,269 | 502 | 261 | 259 | 510 | - | - | 10,684 | |
| TOTAL STOCK (UNITS AND BEDS) | 1,459 | 2,702 | 4,089 | 5,573 | 29,998 | 15,932 | 3,022 | 3,001 | 2,679 | 8,308 | 36 | - | | 76,799 |
| AL RRAP | | | | | | | | | | | | | | |
| TOTALS 1984 | 1,416 | 506 | 1,646 | 1,917 | 6,581 | 1,402 | 706 | 1,094 | 587 | 1,578 | 52 | 12 | 17,497 | |
| TOTAL STOCK | 8,775 | 4,743 | 10,071 | 14,828 | 46,756 | 3,943 | 2,720 | 4,478 | 2,638 | 7,442 | 151 | 418 | | 106,963 |
| -RESERVE RRAP | | | | | | | | | | | | | | |
| TOTALS 1984 | - | - | 88 | 12 | 298 | 484 | 412 | 322 | 191 | 467 | 31 | - | 2,305 | |
| TOTAL STOCK | - | 45 | 556 | 329 | 1,231 | 1,884 | 1,137 | 867 | 542 | 2,284 | - | - | | 8,875 |
| -PROFIT RRAP | | | | | | | | | | | | | | |
| TOTALS 1984 | 29 | 42 | 58 | 59 | 651 | 489 | 117 | - | 9 | 222 | 7 | - | 1683 | |
| TOTAL STOCK (UNITS AND BEDS) | 225 | 86 | 471 | 950 | 10,863 | 5,048 | 404 | 425 | 313 | 4,922 | - | - | | 23,707 |

ACTIVITY BY PROVINCE FOR SELECTED FEDERAL HOUSING PROGRAMS (IN UNITS)

| SOCIAL HOUSING PROGRAMS | NFLD/ LAB | PEI | NS | NB | QUE. | ONT. | MAN. | SASK. | ALTA. | BC | YUK. | NWT | 1984 SUB TOTAL | TOTAL STOCK |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RESERVE HOUSING | | | | | | | | | | | | | | |
| TOTALS 1984 | - | - | 21 | - | 218 | 131 | 139 | 152 | 137 | 339 | 31 | - | 1,168 | |
| TOTAL STOCK | - | - | 46 | 34 | 798 | 372 | 524 | 695 | 498 | 1,069 | 81 | - | | 4,117 |
| AN NATIVE PROGRAM | | | | | | | | | | | | | | |
| TOTALS 1984 | - | 8 | 25 | 20 | 18 | 138 | 61 | 250 | 80 | 215 | 22 | - | 837 | |
| TOTAL STOCK | - | 8 | 43 | 98 | 181 | 327 | 283 | 1,167 | 161 | 393 | 23 | - | - | 2,684 |
| AL AND NATIVE HOUSING | | | | | | | | | | | | | | |
| TOTALS 1984 | 265 | - | 165 | 4 | - | 289 | 242 | 212 | 76 | - | - | 19 | 1,272 | |
| TOTAL STOCK (1980-84 ONLY) | 1,392 | - | 782 | 505 | - | 965 | 659 | 1,072 | 640 | 125 | 4 | 58 | | 6,202 |
| ERGENCY REPAIR PROGRAM | | | | | | | | | | | | | | |
| TOTALS 1984 | 149 | 5 | 95 | - | 95 | 42 | 221 | 448 | 318 | 409 | 133 | 46 | 1,961 | |
| TOTAL STOCK | 1,241 | 71 | 1,693 | 213 | 1,073 | 1,559 | 2,301 | 2,862 | 1,850 | 1,526 | 606 | 849 | | 15,844 |

ACTIVITY BY PROVINCE FOR SELECTED FEDERAL HOUSING PROGRAMS (IN UNITS)

| MORTGAGE PROGRAMS | NFLD/ LAB | PEI | NS | NB | QUE. | ONT. | MAN. | SASK. | ALTA. | BC | YUK. | NWT | 1984 SUB TOTAL | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MORTGAGE RATE PROTECTION PROGRAM (MRPP) | 2 | 2 | 4 | 2 | 14 | 23 | 3 | 1 | 8 | 10 | - | - | 69 | |
| RESIDUAL LENDING | 30 | - | - | 3 | 80 | 14 | - | - | - | 4 | 6 | 11 | 148 | |
| MORTGAGE LOAN INSURANCE | 2,226 | 661 | 3,559 | 3,465 | 49,889 | 58,456 | 7,627 | 6,708 | 12,176 | 19,119 | 186 | 366 | 164,438 | |
| | | | | | | | | | | | | | | 164,655 |

ACTIVITY BY PROVINCE FOR SELECTED FEDERAL HOUSING PROGRAMS (IN UNITS)

| HOUSING QUALITY PROGRAMS | NFLD/ LAB | PEI | NS | NB | QUE. | ONT. | MAN. | SASK. | ALTA. | BC | YUK. | NWT | TOTAL STOCK |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CANADIAN HOME INSULATION PROGRAM (CHIP) Sept. 1977 - Mar. 31, 1985 | 86,674 | 30,027 | 213,225 | 70,556 | 725,485 | 1,023,129 | 117,916 | 113,859 | 193,211 | 223,572 | 1,903 | 1,585 | 2,562,068 |
| CANADIAN OIL SUBSTITUTION PROGRAM (COSP) Oct. 1980 - Mar. 31, 1985 | 31,310 | 12,389 | 31,112 | 38,835 | 445,080 | 302,973 | 25,486 | 13,525 | 5,339 | 82,793 | 1,952 | 1,367 | 992,161 |
| UREA FORMALDEHYDE FOAM INSULATION PROGRAM (UFFI) Oct. 1982 - Mar. 31, 1985 | 1,858 | 67 | 1,389 | 5,139 | 9,963 | 14,244 | 4,988 | 1,213 | 685 | 3,126 | - | - | 42,672 |
| SOLAR DOMESTIC HOT WATER PROGRAM | 3 | 220 | 220 | 6 | 880 | 1,040 | 18 | 35 | 175 | - | 1 | - | 2,598 |

## 7. NOTE ON CMHC RESOURCES

The resources sections of the program assessments do not capture all of the CMHC administration expenses and person years. In 1984, the organization had a total of 3702 person years and an administration budget of $187 million. Of these, 2071 person years and $89 million were devoted to the direct delivery of programs. The other 1631 person years and $88 million in administration costs were related to support and overhead activities.

With the exception of Mortgage Loan Insurance, the person year and administrative resources shown for any program in the program assessment sections show only the 50% to 55% of resources that are directly administering that program. Each program could be attributed its share of the support and overhead expenses, but this was done only for Mortgage Loan Insurance, since it is considered as a self-contained unit.

## 8. RECORD OF CONSULTATION

### 1. ASSOCIATIONS

Canadian Real Estate Association (CREA)

Logan Tate, President
Shirley A. Taylor, Supervisor of Communications
David L. Humphreys, Ottawa Representative

Canadian Home Builders' Association (CHBA)

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Kenneth Kyle, Chief Operating Officer
John Kenward, Director of Policy and Development
John Sandusky, Immediate Past President

Canadian Association of Housing and Renewals Officials (CAHRO)

James Anderson, Calgary Non-Profit Housing Corporation
William Todd, Deputy Commissioner, Housing and Renewal Services, City of Saint John
Peter Stiles, RRAP Delivery Agent, Little Current

Canadian Institute of Public Real Estate Companies (CIPREC)

Michael Galway, Executive Director

Cooperative Housing Foundation of Canada (CHF)

Tom Webb, Co-op Housing Federation
Nick Van Dyke, Co-op Housing Federation
Peter Trotscha, Co-op Housing Ottawa Federation

Canadian Federation of Labour (CFL)

James McCambly, President
Austin Thorne, Secretary-Treasurer

Federation of Canadian Municipalities (CFM)

James Knight, Executive Director
Alderman Dianne Holmes, City of Ottawa
(Chairman of CFM Housing Task Force)

Urban Development Instititue (UDI)

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Michael Geller, Director, UDI (British Columbia)
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Fred Beaver, Researcher
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3. **CMHC**

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Barry Lacombe, Vice President

General Managers:

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Fernand Perreault, Quebec Region
Robert Player, Technical Services
Keith Tapping, B.C. and Yukon

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Keith Glegg, Vice President, Technology Transfer, National Research Council (NRC)
Anthony Hansen, Technical Information Unit, National Research Council (NCR)
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## 6. MUNICIPAL

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James Hewitt, Executive Vice President and Chief Operating Officer

National Victoria and Grey Trust Company

George Anderson, Vice President, Mortgage Operations

Bramalea Ltd.

Peter Goring, Vice President, Finance

Price Waterhouse & Company

Ronald Finch, Senior Partner
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